Focusrite plc

Industry-leading brands dedicated to audio **excellence**

Focusrite plc
Annual Report + Accounts 2021

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.

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; a like-minded, eclectic family brought together by a common passion to help others on that journey. There are many barriers, technical and otherwise, that impede people from realising their own creativity. As a team we work together to remove them, one by one.

www.focusriteplc.com

Highlights

Financial highlights

Group revenue
£173.9m
+34%
(28% organic[1])

Gross margin
48.4%
+2.4ppts

Adjusted EBITDA[2]
£47.5m
+67%

Operating profit
£35.8m
+353%

Adjusted operating profit[3]
£41.4m
+80%

Net cash
£17.6m
+£14.3m

Basic earnings per share
48.8p
+587%

Adjusted diluted earnings per share[3]
57.5p
+75%

Total dividend per share
5.2p
+24%

- Revenue growth of 34% across the group reflecting continued growth of core customer base.
  - Focusrite products up by 24% to £124.4 million (FY20: £100.7 million) driven principally by the Scarlett 3rd Generation range.
  - Novation revenue up by 14% as the new generations of Circuit and Launchkey products gained traction.
  - Martin grew by 23% (organic[1] constant currency growth) returning to pre-COVID-19 levels at end of year.

- Growth across all major geographic regions: North America was up by 47%; Europe, Middle East and Africa ('EMEA') by 23%; and the Rest of World by 32%.
- Acquisition of Sequential completed in April 2021 for $20 million net of acquired cash.
- Launch of a new brand, Optimal Audio, operating in the commercial audio market.
- Year-end net cash balance of £17.6 million (FY20: £3.3 million), repaying debt drawdown of $10m for Sequential in four months.

- Increased investment in our people, technology, IT, management systems and tools.
- 13 new hardware products launched within Focusrite as well as numerous software/firmware updates.
- Final dividend of 3.7p recommended, resulting in 5.2p for the year, up 24% on prior year.

1 The organic constant currency growth rate is calculated by comparing FY21 revenue to FY20 revenue adjusted for FY21 exchange rates and the impact of acquisitions (more detail in the Financial Review on page 26).

2 Comprising earnings adjusted for interest, taxation, depreciation, amortisation, goodwill impairment and adjusting items (see table reconciliation on page 29).

3 Adjusted for amortisation of acquired intangible assets, goodwill impairment and other adjusting items (see note 15, note 19 and table reconciliation on page 27).

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 that all 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 1.4 million times. We utilise third-party logistics support. We employ over 400 people across the UK, Germany, USA, Hong Kong, Latin America and Australia.

Revenue by geography

43% USA

40% EMEA

17% ROW

Focusrite®

FAEL ('Focusrite Audio Engineering Limited') comprises 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 and Clarett ranges address the home recording/hobbyist market and Focusrite Pro targets audio professionals — and is a leading provider of audio over IP ('AOIP'). As electronic music flourished, the company acquired Novation, known for its revolutionary Launchpad, its keyboard controllers, grooveboxes and synthesisers. Ampify develops acclaimed IOS music creation apps and has since expanded with Ampify Studio for desktops, designed for users of all levels.

Our history

Brand formation
1985

Focusrite acquired by our Chairman Phil Dudderidge
March 1989

Acquisition of Novation brand
2004

IPO on Alternative Investment Market ('AIM')
2014

ADAM Audio acquisition
July 2019

£41.0m
Pre-IPO August 2014 Group revenue

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.

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. Recently, Optimal Audio was launched under Martin Audio, addressing the need for high-quality audio in commercial installations. Martin Audio was acquired by the Group in December 2019.

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 is known as the pioneer behind the 1981 MIDI specification — Dave coined the acronym. In 1987 he was named Fellow of the Audio Engineering Society ('AES') for his continuing work with music synthesis.

Today, Sequential hosts several best-in-class analogue synths, including updated versions of the Prophet 5 and OB-6. Based in San Francisco, the Sequential team continues with Dave Smith as chief product designer. Sequential joined the Group in April 2021.

Martin Audio acquisition
December 2019

Sequential acquisition
April 2021

Optimal Audio creation
April 2021

£173.9m
2021 Group revenue

Our Arena – On Stage

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.

novation SEQUENTIAL

Synthesisers

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

novation

Grooveboxes

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

novation

Keyboard and pad controllers

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

AMPIFY Focusrite

Audio software

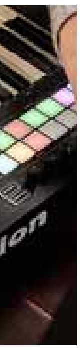
Audio software allows users to easily create, edit and perform their music. Our brands create software that complement our hardware and enable our customers to quickly achieve their goals.

ADAM AUDIO

Monitor speakers

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

Focusrite Focusrite PRO



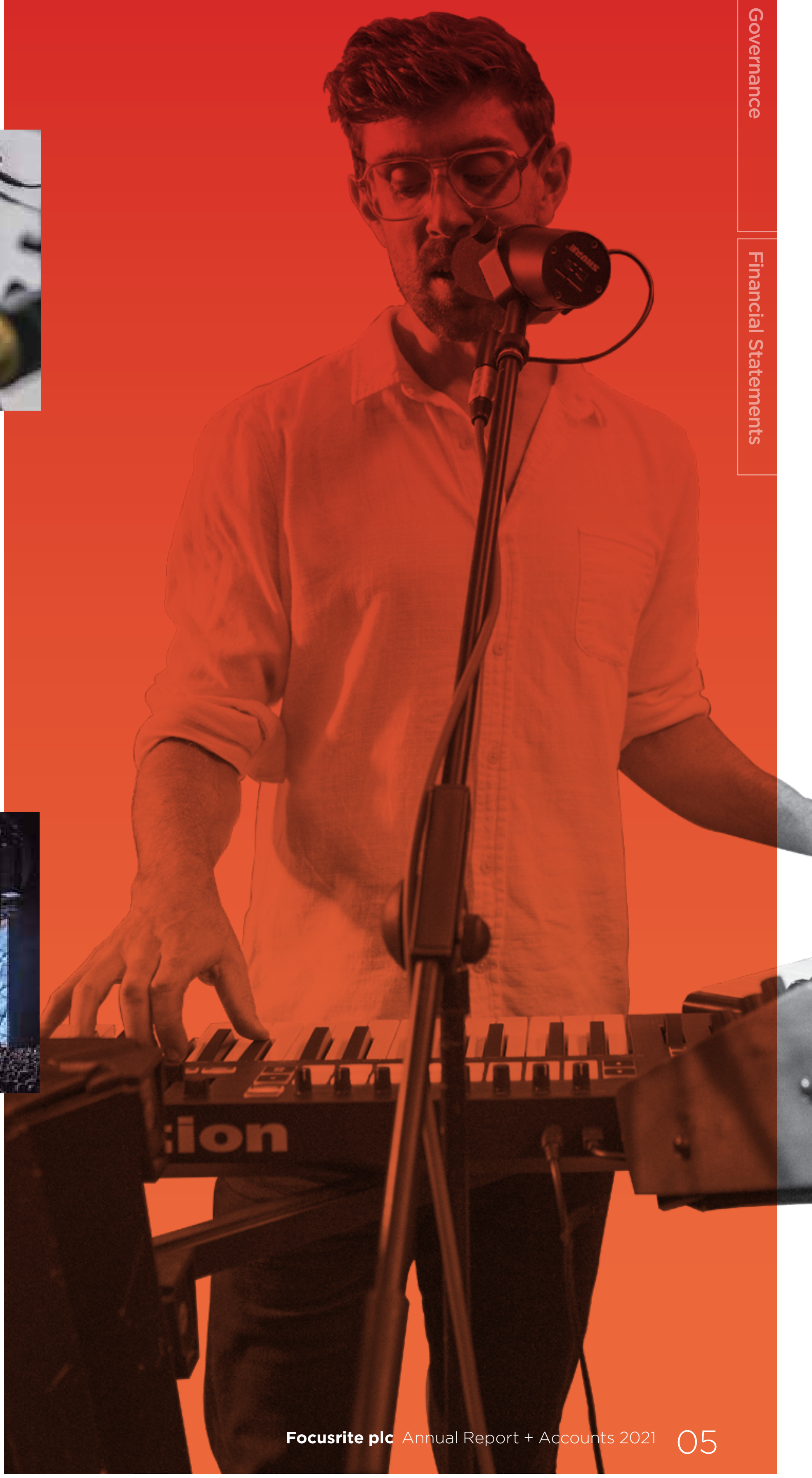
Audio interfaces

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

MARTIN AUDIO Optimal Audio

Professional sound reinforcement systems

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



Our Arena – The Audience

The Aspiring Creator

Market size £450m–£500m

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. 2020 and 2021 saw an expansion in home creatives and the resulting word of mouth has continued to fuel this trend.

The Passionate Maker

Market size £625m–£675m

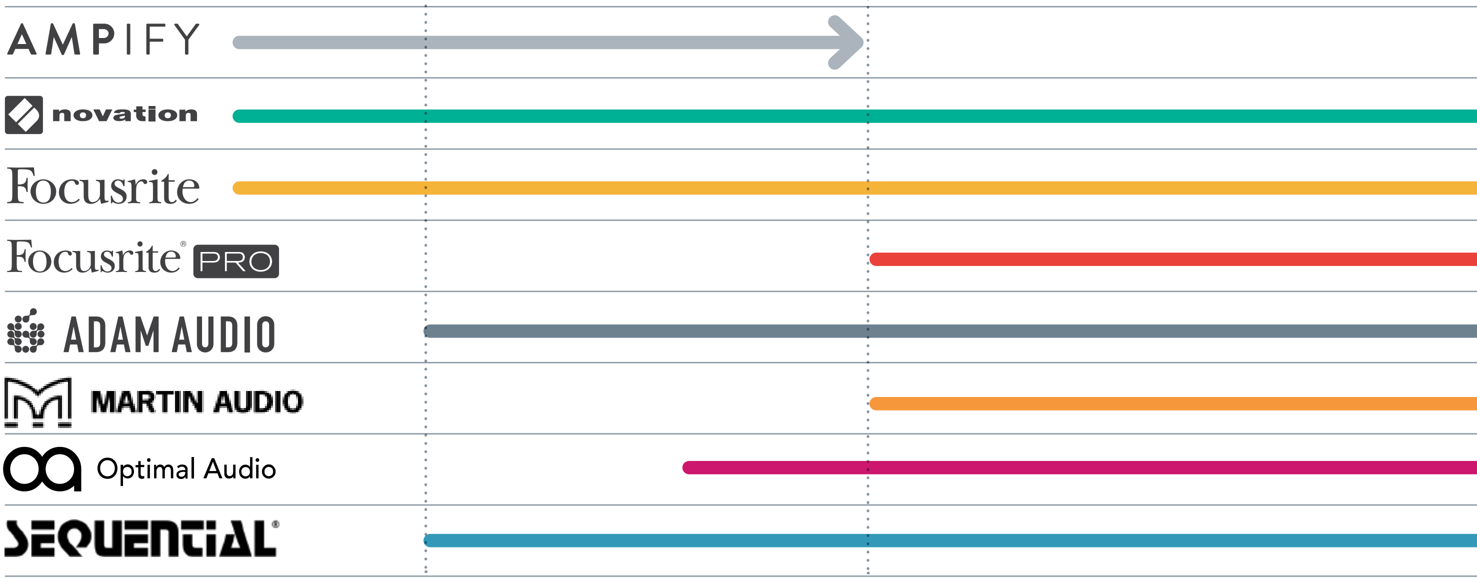
Considering themselves as artists or music-makers, they feel a sense of achievement when they complete a track they can call their own. They know enough to create their music but are hungry to improve. Unsure of the quality of their output, they're cautious about what they share, and with whom. All too 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, not as part of a wider studio workflow.

The Serious Producer

Market size £250m–£275m

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 earning 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.

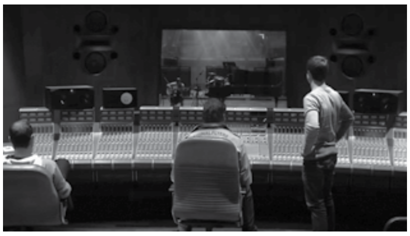
Brand alignment



The Music Master

Market size £200m–£250m

They produce 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. They're 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 the former must have a positive impact on their workflow.



The Facility

Market size £300m–£350m

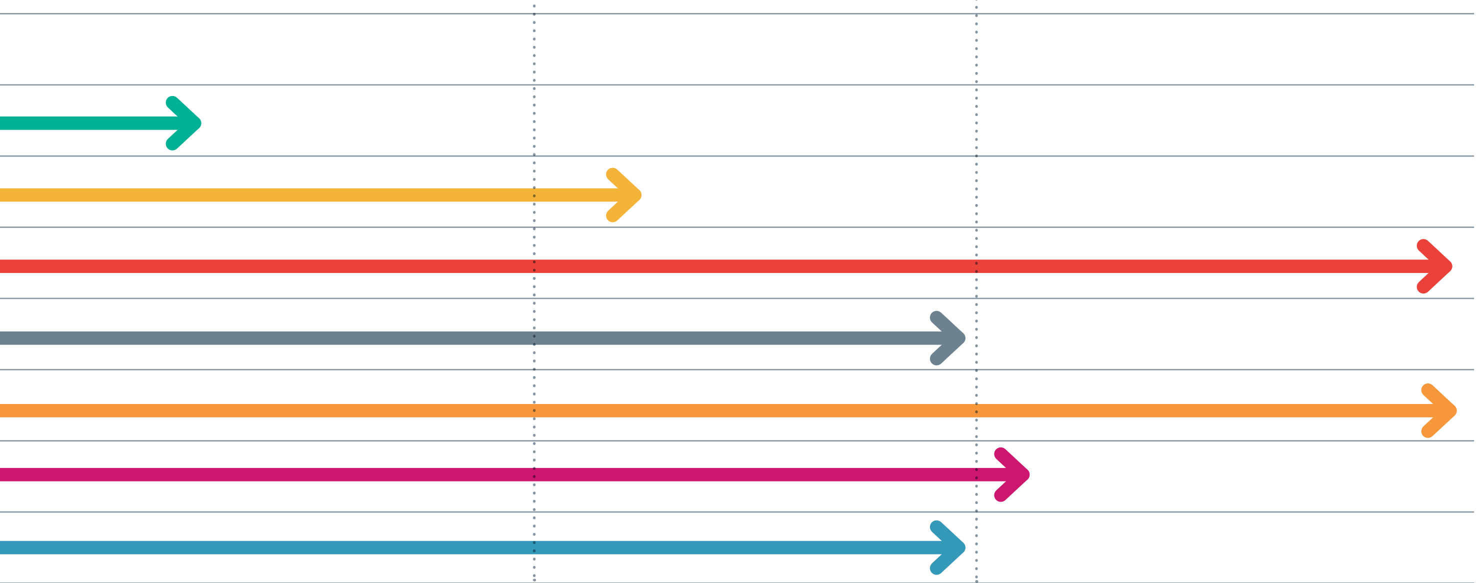
The facility is often made up of multiple decision-makers, all focused on playing their part to ensure the business's success. Every facility's requirements are unique and often complex. From the largest post-production houses and sprawling media arts campuses, to live and broadcast stages and beyond. 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 multi-channel networked audio.

The technology they invest in must deliver the best possible return. Indeed, some technology investments can make or break the business, so the stakes are high. Common among all facilities is the need to have workflows and technology they can rely on. As audio professionals, they need a sense of confidence in the technology they use so they can focus on getting the job done, happy in the knowledge that their sound is safe and their solution stable.

The Live Venue

Market size £2,000m–£2,500m

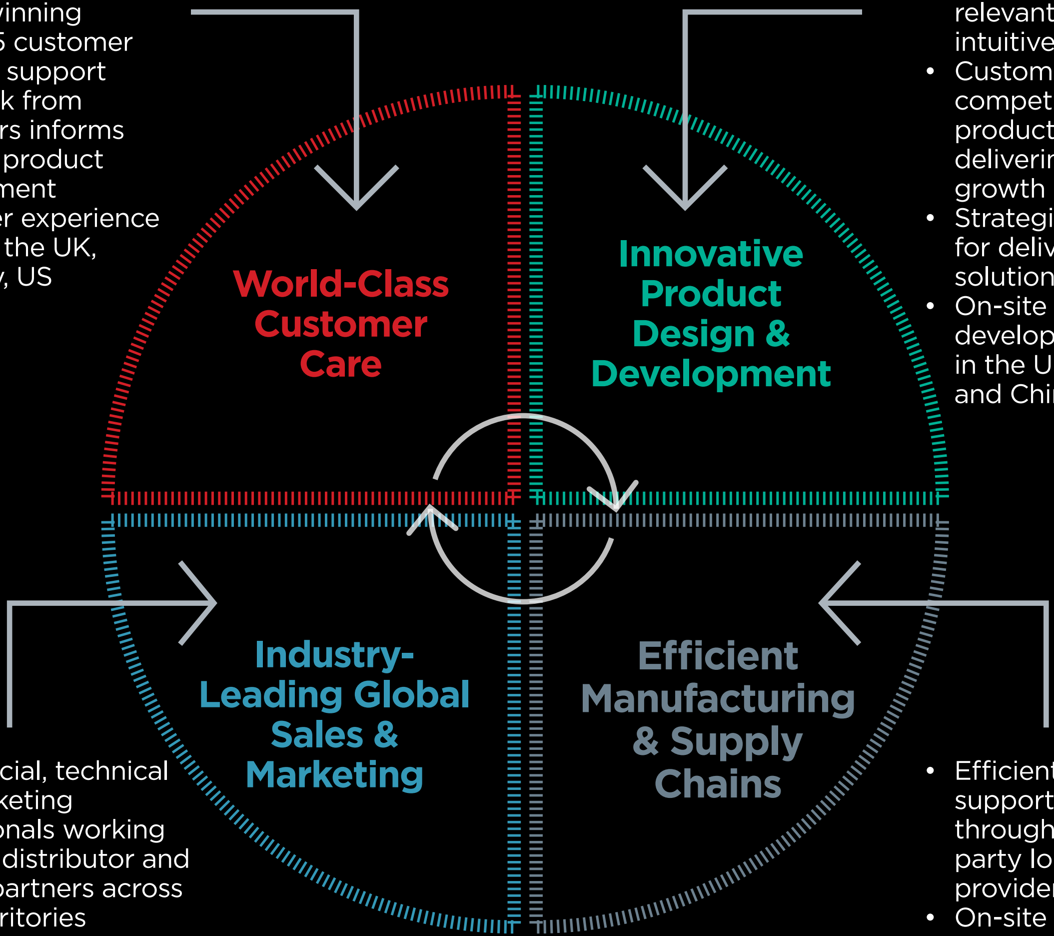
The vast majority of music creators want an audience to hear their music. Therefore, there is an enormous market for both installed sound and live sound equipment used for the reproduction of music. This will include festivals, concerts, nightclubs, houses of worship and many other hospitality venues. 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.



Enhancing our offering

- Exceptional Net Promoter Score of 74
- Award-winning 24/7/365 customer care and support
- Feedback from customers informs ongoing product development
- Customer experience teams in the UK, Germany, US and Asia

- Deep user insight leading to a highly relevant and more intuitive user experience
- Customer-led and competitor-aware product roadmap, delivering consistent growth
- Strategic partnerships for delivering complete solutions
- On-site research and development teams in the US, UK, Germany and China



- Commercial, technical and marketing professionals working with our distributor and reseller partners across 240+ territories
- Supported by scalable systems and processes
- Creating international brand reputation and mass awareness
- Localisation programme to engage with customers more meaningfully
- Worldwide direct-to-consumer sales channel in place to ensure global product availability

- Efficient supply chains supporting our markets through global third-party logistics providers
- On-site manufacturing in the UK and Germany, long-term partnerships with contract manufacturing in China, Malaysia and the US for our high-volume products

What sets us apart

The following resources, relationships and knowledge amplify our offering and differentiate us from competitors.

Customer focus
Our customers are at the heart of everything we do. Proactively engaging with existing and prospective customers, to ensure that their feedback drives all our decisions.

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.

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.

Industry experience and expertise
Our Group's management team has almost 200 years of music industry experience, and all our people are critical to meet the needs of our customers.

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.

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.

The value we create

- **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

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.

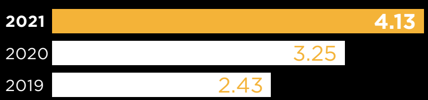
Growing the core

The Group believes that all our core markets are still ripe with opportunity for growth. How our customers create and reproduce their content and the workflows surrounding these art forms continue to evolve. As a leading audio technology company, we take on the challenge to ensure we are creating solutions for the present as well as what creative minds will need in the future.

Hence, a large amount of our annual R&D expense goes into ensuring that we will be delivering next-generation versions of our current products as well as net new offerings in our core groups that are considered cutting edge and advance our customers' capabilities. Many of the products introduced across this year from Focusrite Pro, Novation and Martin Audio were rooted in growing our core. Additionally, with the Sequential acquisition, we have acquired a business that dramatically grows our footprint in the high-end synthesiser market.

Number of registered core users (m)

4.13m



Focusing on lifetime value for our customers

Lifetime value for our customers is in the DNA of every single product we bring to market. This includes world-class tech support (FAEL now has 24/7 follow-the-sun support), a highly differentiated out-of-box experience that is oriented directly at the customer's experience level and desired workflow, and continuous product updates and offerings that bring more functionality and capabilities to the customer's investment. The net result of this is industry-leading Trustpilot and NPS scores with a high proportion of returning customers when they need to expand or change out their equipment.

Net Promoter Scores

74

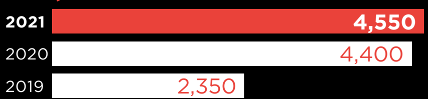
Expanding into new market opportunities

The Group views expansion into new market opportunities as a multi-prong approach for growth. First, we are consistently 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 us investing in local people and resources to be closer to our customers and ensuring our products resonate with the local community. Latin America has been a shining example of this. The Group now has a dedicated team based across the region who take on the demand generation and account management for all Latin America resellers. Since investing in this team two years ago, Latin America revenue has grown 59% year over year. We have also expanded our APAC team, now with sales and support people across Australia, Singapore, Japan and Hong Kong.

Second, we look to expand into new markets both organically and through acquisition. In 2019, the Group acquired both ADAM Audio and Martin Audio; companies with similar culture and brand recognition in product categories that were very complementary to the Group's portfolio but in entirely different groupings, followed by the acquisition of Sequential in 2021. Additionally, we launched Optimal Audio this past year; a new brand dedicated to commercial audio. This is a significant expansion of our footprint into installed sound.

Total addressable market (£m)

4,550



Creating a great place to work

Enabling our employees 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 equity and inclusion. Our people know how they contribute to the overall success of the business and feel purpose and meaning in what they do.

This year the Group invested in our employees through tactical training, regular reviews, career advancement opportunities, surveys and consistent communication on Group and individual business activities. Additionally, our employees are passionate about the Group taking an actionable stance on global issues such as green initiatives, diversity and inclusion, and many other social responsibility topics. The Group now has a full-time Head of Sustainability as well as numerous working groups focused on the many aspects of diversity and inclusion.

Employee net promoter score (eNPS)

43

Chairman's Statement
Phil Dudderidge

It is almost seven years since Focusrite plc joined the AIM market (December 2014) and we have continued to deliver for our investors, customers and people. The growth of the business, organically and more recently through acquisition has more than justified the confidence placed in our management and staff by the original institutional investors, a great number of whom remain invested in the company, as well as those which have joined us more recently. We remain grateful to you all for your support.

It was a particularly proud moment when we discovered that we had won the prestigious Company of the Year Award at the AIM Awards 2021, which was held in Old Billingsgate, London in front of over 1,400 guests a few weeks ago. It is a true testament to all the hard work and dedication of our employees, senior leadership team and Board of Directors.

As a business we have a primary purpose: to satisfy the needs and expectations of our customers, most of whom are investing their passion, careers and businesses in music creation, recording and performance.

I would like to express my personal thanks to all the stakeholders who contribute to our success and to the management teams that make it all happen, by ensuring that we make products that are the best choice for each and every customer, whether a musician, sound designer or technician who decides what is the best product to meet their needs.

We have a strong relationship with our partners that assemble and distribute our products to customers, globally, whose commitment has enabled Focusrite Group brands to meet the potential we have created in the market.

And we also have a huge reliance on our employees in our branded business units who invest their careers with us, to enable us to achieve our goals, and I thank them here for their contributions to our successful performance.

The COVID-19 pandemic has challenged all businesses but as you will read in the following CEO and CFO reports, Focusrite plc has achieved outstanding results while overcoming disruption to component suppliers, assembly factories, international logistics and markets, as well as dealing with the challenges of enforced changes to everyday working practices.

In the professional audio industry, the global suspension of live music performance for 18 months (and still in recovery) impacted our new member of the Group, Martin Audio, which was acquired just three months before the pandemic hit in March 2020. I am pleased to report the commitment and agility with which the Martin Audio team has pivoted the focus of their business to Installed Sound (including places of worship, auditoria and nightclubs) and away from Touring and Festival Sound for which it was historically best known. They have delivered a great performance (no pun intended) in the 2021 financial year as you will read in the following pages, to the credit of CEO Dom Harter and his team. Renewed demand from the live market promises further growth in 2022 and 2023 as the sound service companies reinvest in the new generation of Martin Audio event systems.

With so many people affected by lockdown regulations around the world, musicians and people using Zoom particularly for creative purposes like voice-overs, as well as podcasters, have been investing in Focusrite audio interfaces and 'studio packs' in record numbers while we battle to meet that demand, month in, month out. Home recording generally is booming and that has also been reflected in significant growth in demand for ADAM Audio monitor loudspeakers and Novation products too.

Group revenue

£173.9m

+34%

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

Most recently, our acquisition of Dave Smith's Sequential brand of synthesisers has reinforced our commitment as a Group to this genre of musical instrument. Sequential is arguably the 'Rolls-Royce' of synthesiser brands and with Novation as a stablemate the Group is in a very strong position to grow in this market.

Focusrite plc is recognised in our industry as a successful and friendly home for complementary branded businesses, with the ongoing successful integration of our ADAM Audio and Martin Audio acquisitions. This fits our ambition to build the Group through acquisitions which can address adjacent segments within the vertical markets we serve; music recording and creation, live performance, audio post-production for film and streaming content, media education and audio networking (which has applications in all of the verticals).

I would like to thank Jeremy Wilson, our Chief Financial Officer ('CFO') who left in March 2021, for his leadership and stewardship of the finance team, as well as his contribution to the achievement of our continued growth, profitability and cash generation.

Our business is becoming more complex with organic growth and acquisitions too. I would like to commend our Chief Executive Officer ('CEO'), Tim Carroll, CFO Sally McKone, and the entire Group executive team for embracing the challenges and enabling the Group to deliver record results in FY21. We look forward to continuing the trends we have established over recent years.

Phil Dudderidge
Founder and Executive Chairman
15 November 2021

global **leader** in music + audio products

Chief Executive's Statement
Tim Carroll

Introduction
I am very proud to share with you our results for the financial year ended 31 August 2021. The Group has continued our pattern of record-breaking financial performance, fuelled by organic growth across all brands as well as a partial year contribution from Sequential, our latest acquisition, and a full-year contribution of Martin Audio.

FY21 presented us with a mix of opportunities and challenges. As the pandemic continued throughout the world, we witnessed more people turning to creative content creation including music, podcasting and video, which resulted in continued high demand for audio recording related solutions. The Group also experienced the continued closure of live sound events which had a negative impact on our offerings in that market. Component shortages and shipping/logistics issues have also been very challenging throughout this year, but to date, the Group has fared well through this with long-term planning and intensive data analysis. This past year saw more investment in our people, technology and tools to ensure our plans were achievable and to give us as much insight as possible into customer buying behaviours and trends in the market mitigating its effects.

Our employee base has now grown to over 475 strong and we continue to invest in our people, promoting from within as well as continuing to hire top talent in all divisions across the Group.

Our office footprint is global, with key locations in the UK (High Wycombe and London), Germany (Berlin), Hong Kong, Mexico, Australia and the US (Los Angeles, Nashville and San Francisco). Our employees are a highly passionate group of individuals, many of whom are also accomplished musicians, DJs, audio engineers, live sound specialists and podcasters in their own right. We are so fortunate to have so many people who leave work and actually use our solutions in real world environments; bringing their experiences and feedback back into work to continually improve our offerings.

The wellbeing of our employees continues to be a top priority. The ongoing work at home environment as well as the slow, methodical return to work plans brought many unique challenges to the Group. By providing the necessary tools, support and flexibility, the Group rose to the challenge and as a result, the vast majority of our employees have managed well through all of this and continued to ensure that strategic objectives and initiatives hit their timelines. The Group has also made significant steps in ensuring we are maturing in our diversity and inclusion policies and green initiatives, two subjects that are very important to our employees, Board and management.

This year has seen increased focus and investment into both areas. The Group hired our first Head of Sustainability. This role champions all aspects of how we can do our part to move forward global green initiatives. Even at this early stage, this role has already helped us make decisions that will have impact. For example, the Group was able to switch to a new renewable electricity contract that reduced the carbon footprint of our UK offices. Additionally, the Group has made strident efforts to raise awareness on D&I issues in our industry, including numerous internal training/awareness seminars and support of charities and institutions that promote equal opportunity for everyone.

Our operations
The Group's products are sold in approximately 240 territories throughout the world. We continue to refine our routes to market as macroeconomic conditions change and new opportunities come to light. We utilise a mix of retailer/system integrators (online as well as brick and mortar shops), distributors in specific countries where localisation, support and supply to the local channel are factors, and direct to the end user via our own e-commerce platform and in-app software purchases.

Last year we sold over 1.5 million physical products, had over 1.4 million downloads of our various software titles, and began our subscription and rent-to-own software offerings, which is growing steadily month on month. Our manufacturing approach is multifaceted, driven by the specific needs of each individual business unit. FAEL (Focusrite, Focusrite Pro, Novation and Ampify) hardware and software is all designed in the UK and hardware products are produced in Malaysia and China. ADAM Audio products are all designed in Berlin. Some ADAM Audio products are manufactured in Berlin whilst the higher volume retail products utilise Chinese contract manufacturing. Martin Audio's products are all designed in the UK, with a portion of their range built in the UK and the balance using Chinese contract manufacturing as well. Our newest acquisition, Sequential, develops all of their products in the US and assembly is also completed in the US.

The Group has continued our pattern of record-breaking financial metrics.

fine **tuning** our performance

Chief Executive's Statement
continued

Our market
Our products and solutions service a wide spectrum of customers, all of whom are seeking high-quality audio results. Until 2020, the majority of our offerings were focused on music and audio creation, with solutions designed for a wide range of customers, including the absolute beginner, hobbyist and both the aspiring and seasoned professional. The majority of the Focusrite, Focusrite Pro, Novation, Ampify, ADAM Audio and Sequential portfolio aligns with these customer personas.

With the acquisition of Martin Audio in late 2019 and the launch in 2021 of the Optimal Audio brand, we expanded our offerings into professional audio reproduction. The Martin Audio and Optimal brands offer professional quality sound reproduction solutions 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. Having a stake in both the production of audio content as well as the reproduction gives the Group a well differentiated experience in that our solutions help artists throughout their entire journey of creating, recording and performing.

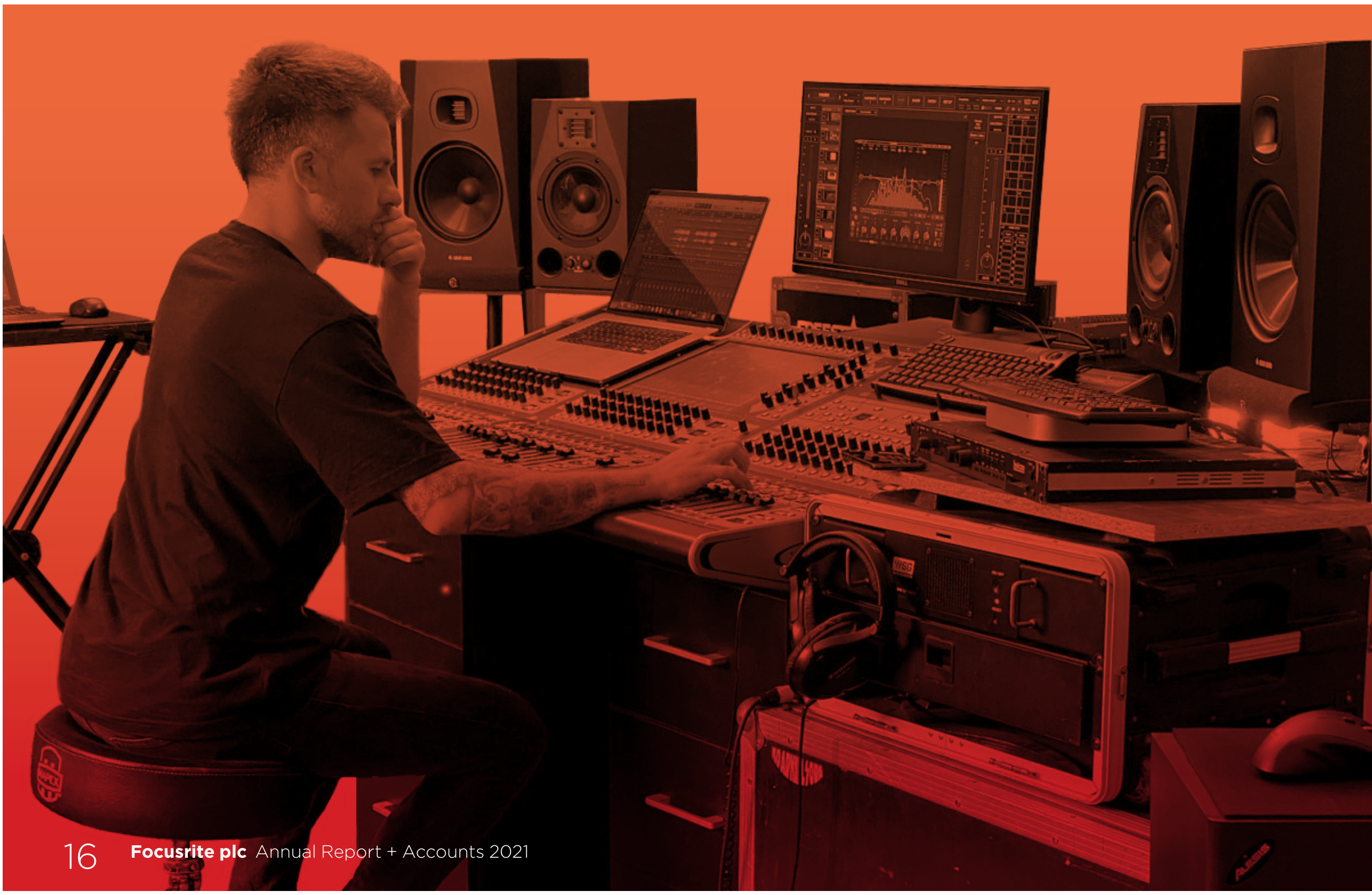
Each of the individual business units continue to focus on innovation, ensuring a healthy roadmap of both new versions of our core products as well as totally new solutions each year. The world of audio creation and reproduction is constantly evolving, and with that we spend considerable effort and resources on our R&D efforts to ensure we are at the forefront of technology, new standards and workflows for our customers. Along with organic development, the Group carefully considers new acquisitions that will add to our market potential and expanding R&D resources.

We actively collate industry market data along with our own internal data collection efforts to better understand our customers, their needs and buying behaviours. From this, we categorise our customers into personae for audio creation sectors and by venue for audio reproduction. For audio content creators, these are:

- Aspiring Creator: A customer who may have little to no music or audio recording experience but is interested in learning more.
- Passionate Maker: A customer who has the desire to create or produce high-quality music or audio content (such as podcasting).
- Serious Producer: A customer for whom audio and/or music production is more than just a hobby and is considering a potential career path in these fields.
- Music Master/Facility: Highly skilled musicians, audio engineers, producers and business entities focused on the production of music or audio content for their livelihood.

For audio reproduction, the classifications are as follows:

- Hospitality: Cafes, bars, restaurants and hotels.
- Houses of Worship: From 50-seat chapels to 10,000-seat mega churches.



- Auditoria: Education and conference spaces.
- Nightclubs: Nightclubs of all sizes.
- Live Events: Concerts, festivals, theatre, corporate showcases.

Operating review

The Group has had another successful year building our core customer base, increasing revenues, whilst prudently managing our cost base to maintain healthy gross margins and drive EBITDA[1] performance and cash generation.

Revenue for the Group grew by 34%: comprised of growth from FAEL of 24%, growth from ADAM Audio of 37%, growth from Martin Audio of 70% (full year vs eight months previous), and four months of Sequential. Adjusted EBITDA increased 67% over FY20.

Many factors contributed to this successful outcome: continued success of legacy products and products introduced in previous years, new product introductions, accelerated growth of user base, further evolution in our routes to market approach and continued tight control on expenses.

Throughout this past year, the Group has encountered a number of challenging macroeconomic events, such as Brexit, continued work at home and restricted travel due to COVID-19, component shortages together with freight and logistics issues. To date, we have been able to mitigate the negative impact of these, by sensible business planning and in some cases, maximise opportunities. We are aware that these issues will continue well into this new year but we remain confident in our level of preparedness and ability to adapt where necessary.

Purchase of Sequential

In late April of 2021, the Group announced the completion of the acquisition of Sequential, a legendary American synthesiser company founded and run by Dave Smith. This is our third acquisition since the beginning of 2019. The initial consideration was $20 million, with a further payment to be made to Sequential employees of up to $4 million if agreed gross profit targets are met.

Demand for analogue synthesisers is high and Sequential revenues increased by 90% in the 12 months to August 2021 compared to the same period in the prior year.

Sequential employs 18 full-time team members, and all except one work out of the high-tech region of the San Francisco Bay Area. Approximately 35% are engaged in research and development.

We have already identified many opportunities to use the strengths of the Group to help Sequential to grow, covering areas such as: component sourcing, distribution logistics, global customer support availability, marketing automation and reseller channel expansion.

Demand for Sequential products remains strong and despite similar component availability challenges that we face in other Group companies, we remain excited about their product roadmap and growth potential, with multiple new products anticipated throughout 2022.

Continued impact of COVID-19

As the pandemic continued throughout this past fiscal year, a number of challenges discussed in the previous year's Annual Report continued: these included work at home mandates, various lockdowns in our own facilities and with our contract manufacturers, and a continued end user preference for e-commerce purchases vs brick and mortar. As with the previous year, the Group was well equipped to handle these challenges. Additionally, the prolonged period of the pandemic did bring new global challenges, most notably around component availability across the supply chain and constraints on logistics and shipping.

Component availability is an ongoing concern that every manufacturer has to deal with, even during normal business times. Over this past year, demand for silicon and wafer sky-rocketed as many companies found themselves unprepared for the increased demand in electronics. This was severely aggravated with many companies, which purchase on a 'just-in-time' model, cutting back orders during the early stages of the pandemic, leading to many manufacturers paring down capacity. When the demand started to come back, the entire wafer producing industry found itself unprepared to satisfy this demand. This has resulted in materially elongated lead times, spot buys at much higher than normal pricing, and in some cases, the need to rework products in order for them to utilise a more available or less costly component. To date, the Group has weathered the storm on this well, with only small intervals of stock unavailability and moderate increases for cost of goods. Part of this is attributable to leveraging component buys at the Group level rather than at an individual business unit level and placing long lead time orders and commitments early on when these issues first began to arise. While this is still an ongoing issue, we are confident in our ability to supply a steady flow of product through our channel to ensure any stock unavailability is kept to a minimum.

Likewise, logistics and freight have also experienced increased lead times and costs to ship product to and from our contractor manufacturers and various warehouses. This has been exacerbated by various port pandemic closures as well as increased demand for the availability of sea and air freight carriers and containers. Like component availability, this is an ongoing economy-wide global problem and the Group is working in close contact across our various channels, with our third-party logistics providers and with our manufacturers to keep product flowing into customers' hands.

Throughout all the continuing and new challenges that COVID-19 is causing, the Group is performing well, with very healthy revenue and margin results and a number of new product introductions, a new acquisition, and continued execution on our growth strategy. As always, we will continue to monitor these events and work with our partners to deliver solutions on a timely basis.

1 Comprising earnings adjusted for interest, taxation, depreciation, amortisation, goodwill impairment and adjusting items (see table reconciliation on page 29).

Chief Executive's Statement
continued

Brand overview

Focusrite

The Focusrite branded product family, which includes Scarlett and Clarett audio interfaces, had another strong year, with a 28% year-on-year organic[2] increase in revenue. Audio interfaces provide the conduit between the world of recordable material (e.g. instrument, voice, sound effects) and the computer and Digital Audio Workstation ('DAW') software that allows one to capture, edit and mix audio components into a final product. Demand for audio interfaces remained strong throughout the year as more and more audio content was created for various platforms, including music creation, voice recording (podcasting and voiceover) and soundtracks for video. Additionally, but still to a much smaller degree than the above, we continue to see more customers purchasing audio interfaces for higher fidelity streaming workflows such as gaming and conference calls.

Whilst the pandemic and associated lockdowns certainly drove many customers to seek out this type of technology for their home studio or working needs, the demand post lockdown has continued to be materially higher than pre-COVID-19 levels. We believe that the various lockdowns and work from home mandates accelerated the growth and recognition of these solutions as viable audio production tools, consequently increasing our base of customers worldwide.

Additionally, late this past year the Group launched a new set of audio plug-ins branded Focusrite FAST plug-ins. Developed in tandem with Sonible, a well-known audio Digital Signal Processing ('DSP') company, these plug-ins incorporate AI that enables customers at any level to sonically sculpt their audio content in unique and creative ways. These plug-ins have received numerous accolades from our community.

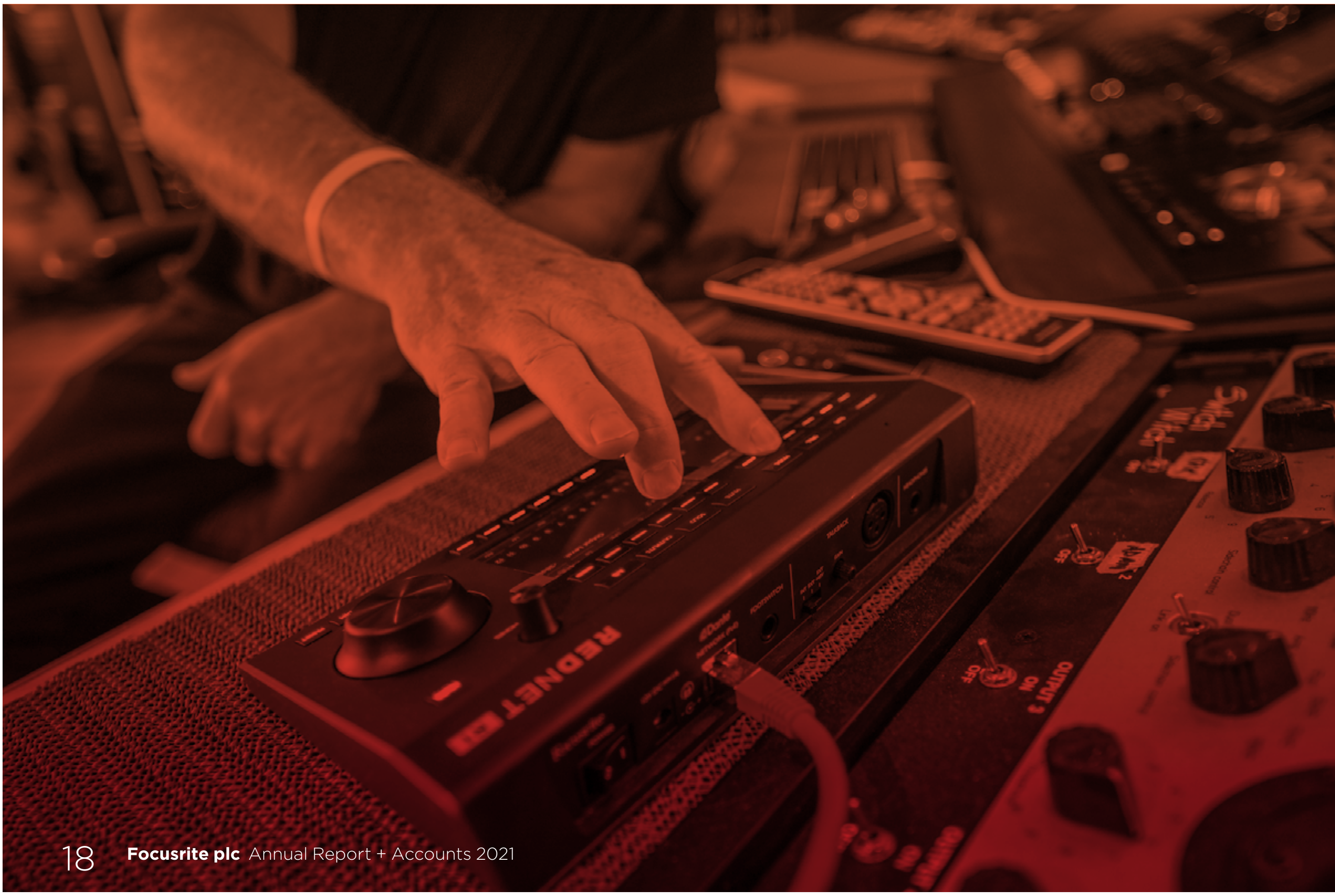
Focusrite Pro

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, including music creation, post-production, broadcast and live sound.

This brand launched several new products this past year that were well accepted across the professional community. This included several updates to our industry standard RedNet solutions, the A16R Mk II and D16R MK II, as well as several net new solutions: the R1, a studio grade desktop remote controller, the Red8, a new entry into our pro line of audio interfaces, and new DANTE-enabled option cards for the world-renowned ISA mic pre.

The Focusrite Pro brand had a very successful year, rebounding from the pandemic and finishing up 40% from the previous year.

2 The organic constant currency growth rate is calculated by comparing FY21 revenue to FY20 revenue adjusted for FY21 exchange rates and the impact of acquisitions (more detail in the Financial Review on page 27).



Novation

Electronic music, and its many genres, continues to grow and to democratise the art of music creation. The Novation brand encompasses a suite of products and solutions focused on the creation and playback of electronic music.

The product range includes industry-recognised premium keyboard and pad controllers, grooveboxes and synthesisers and is aimed at a wide swathe of end users, from the absolute beginner just exploring how to make beats, all the way through to the professional DJ, producer and musician. This past year, the Novation brand introduced two new members of the Circuit groovebox family: Circuit Tracks and Circuit Rhythm. These two products have received numerous accolades from the industry as powerful music creation tools that enable musicians of all experience levels to create great sounding tracks. Additionally, Novation introduced the AFX Station, an update to our award-winning Bass Station synth. These new products, along with continued strength in the existing portfolio, resulted in revenue growth of 15% to prior year.

Ampify

Ampify expands the Group's electronic music offerings into iOS and cross-platform desktop solutions that allow anyone to experiment with and create high-quality soundtracks. The apps are all free to download.

Ampify Studio, our desktop music creation app, is bundled with all Focusrite and Novation hardware and is a great first immersive learning step into the world of audio creation and production. Our iOS music creation apps are considered industry leading, including functionality to emulate our Launchpad hardware and easily create great sounding tracks. All the apps have paid feature upgrades, which include enhanced editing tools as well as access to a large suite of royalty-free sounds and loops in a wide range of musical genres. This library of sounds is constantly increasing, with new sound packs coming out approximately every two weeks.

Over the past year, our Ampify iOS App had 1.4 million downloads, with roughly 565,000 in-App purchases. The number of in-App purchases declined year over year as we introduced a subscription service for content and features for the most popular iOS App, Launchpad, as well as for Ampify Studio. The total number of active subscriptions ended the year at 5,700 and is growing every month.

ADAM Audio

The ADAM Audio brand of professional studio monitors and headphones are utilised by every customer persona in the audio creation customer sectors described earlier. ADAM Audio's reputation for best-of-breed monitoring solutions across all their offerings and price points continues to grow. ADAM Audio achieved a 37% growth in revenue for the year ended 2021. Additionally, the ADAM Audio sales and marketing team took over distribution of FAEL (Focusrite, Focusrite Pro and Novation) products for Germany. Having a local team with strong ties to the reseller community has paid off, with ADAM Audio growing the German FAEL business by over 23%.

This success comes from every department within ADAM Audio stepping up and showing great initiative. Our sales and marketing teams have refined past campaigns whilst also developing new and cutting-edge ways to showcase our products to our passionate and growing audience. Our AAAP (ADAM Audio Academic Program) has been expanded into new regions and markets while our 'Women in Music' initiative is progressing strongly, shedding a much-needed light on the under-representation of women within the audio industry. These campaigns, alongside our sales and marketing initiatives, are devoted to our core vision: being as close to and relational as possible with our end customers. Lastly, the ADAM Audio research and development team has also been hard at work developing new, groundbreaking technologies; some of this work will reveal itself with product launches in 2022.

Martin Audio

Martin Audio remains the UK's largest manufacturer of professional loudspeakers for both live and installed sound. 2021 saw the brand enter its 50th year, during which time Martin Audio's equipment has been found supporting acts from Pink Floyd in the early days through to major artists at some of the world's largest festivals such as All Points East, BST Hyde Park and Rock in Rio. Alongside this, since the early 1990s, Martin Audio has been manufacturing high-end professional installed sound systems which can be found in some of the most prestigious facilities in the world, such as the Nobu Hotel in Chicago which was fitted out with Martin Audio's recently revamped CDD enclosures in October 2020.

FY20 gave the Martin Audio team a huge challenge as many markets went into lockdown, but the resilience of the team delivered a positive EBITDA in an eight-month period. In FY21 the team set the ambitious task of rebuilding the business to pre-COVID-19 levels. This was achieved with the team at Martin Audio contributing £3.8 million EBITDA[3] in FY21.

The team refocused the short-term roadmap throughout the pandemic, focusing on bolstering and growing the smaller installed sound business. This was particularly true in China where local small entertainment venues have seen a boom; the net result being significant revenue growth in APAC.

Closer to home, as we entered the second half of the year Martin Audio announced the launch of the TORUS constant curvature array series for use in both live sound and installed sound for throws of up to 30 metres, applying core Martin Audio IP to this new market sector for the brand.

3 Comprising earnings adjusted for interest, taxation, depreciation, amortisation, goodwill impairment and adjusting items.

Chief Executive's Statement
continued

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

Alongside TORUS, and in support of all users, Martin Audio unveiled the company's first truly 3D system design software – Display3 – a sound system design tool allowing users to import complex 3D renderings from SketchUp and map the coverage of a sound system as a heat map, clearly displaying the coverage of sound to the client. This is of use to all sound system designers, and it felt particularly apt to be offering rental partners a free design tool allowing them to better understand the performance of a sound system as live sound began to return in the second half of 2021.

FY21 saw a strong performance from the team, carefully managing cost and rebuilding the sales channels through COVID-19. This was alongside bringing the Optimal Audio brand to market and supporting the #WeMakeEvents campaign. Additionally, Martin Audio was honoured with a Queens Award for Enterprise in Innovation this year for our Wavefront Precision optimised line arrays.

Optimal Audio
Optimal Audio offers a one-stop solution of control, amplification and loudspeakers for small to medium-sized commercial installations, with a focus on supporting multi-zone venues. The portfolio provides a streamlined product offering working seamlessly together to deliver high-quality sound that is easy to install and can be operated by anyone, not just engineers. There is currently nothing else at this price point on the market which has the functionality and versatility to allow such a quick and simple setup. Alongside its own dedicated staff, a number of colleagues from across the Group – most notably within Martin Audio – helped to bring Optimal Audio to fruition with the long-term ambition that the brand will have its own distinct team. Feedback from the commercial install community has been very positive, with a number of premier distributors and system integrators signing on shortly after public launch.

Sequential
Sequential is a premium synthesiser maker and has been a leading force in the resurgent popularity of analogue synthesisers over the last decade. They are a mainstay of performing and recording artists and can be seen and heard on countless stages and recordings. Sequential also brings the first US-based research and development team into the Group.

The Sequential portfolio of high-end analogue synthesisers perfectly complements the Group's existing Novation brand of synthesisers, greatly expanding the number of solutions we have for professional musicians looking for new ways to enhance their sonic palette. Sequential's product offerings are deeply rooted in the history of synthesisers, with a number of modern-day versions of classic instruments known and coveted by professional musicians. The acquisition has been warmly received by the industry and performed well and to expectations in the four months since becoming part of the Group.

Routes to market

The Group utilises a multi-pronged approach to market, including brick and mortar shops, e-tail focused resellers, system integrators, rental companies, distributors and our own direct-to-end user e-store. We continue to invest in more people in local regions, allowing us to service our resellers and customers locally and in their own language. Additionally, the Group has reaped benefits from having the major regions handle their own demand generation and marketing collateral, ensuring that our products resonate with the local community and cultures.

Regional review

I am very pleased to report that once again our success was global, with all major regions and brands reporting strong growth and overall Group gross margin increasing as well.

North America

North America, including the US and Canada, is still our biggest market and accounts for 43% of total Group revenue. This past year, North America grew by 47%, which included a full year of Martin Audio and four months of Sequential. On an organic[4] basis, North America revenue was up 46% year over year, with all brands experiencing strong growth. With circa 60 employees now in North America across sales, marketing, tech support and R&D, our North America operations continue to grow. Effective from 1 September 2021, we have consolidated all our individual business units under one company: Focusrite Group US. Under this umbrella, we will be able to leverage the talent and scale of the individual brands' presence in North America to provide lift for the entire Group efforts in the region. This will include cross-selling of the various brands utilising the skills and relationships of each sales member, and the scale of our tech support teams to provide more coverage to all brands, as well as more unified marketing efforts and scalable back-office functions.

Europe, Middle East and Africa ('EMEA')

Our European operations continue to grow, with dedicated offices in the UK and Berlin. Additionally, last year saw the Group move to a new distribution strategy for the UK and Germany: ADAM Audio, with their local German team began distributing FAEL products for Germany. Likewise, the FAEL UK team took over distribution of ADAM Audio products in the UK. Both changes netted considerable growth in the brands for these respective regions. Overall, EMEA accounted for 40% of Group revenue last year. EMEA Group revenue grew 23% year over year, with all brands reporting growth; organic[4] growth was 15%.

Rest of World ('ROW')

The ROW region comprises Asia Pacific ('APAC') and Latin America ('LATAM'). Overall ROW represents 17% of the Group's revenue and grew by 32% year on year; organic growth was 25%.

Latin America continues to be a region where the Group invests resources to get closer to the customer. The team, located throughout Mexico and Brazil, is focused on all demand generation and reseller/distribution relationships for the various countries. Marketing materials, seminars, social media and artist relationships are managed locally, ensuring that our products resonate well with the local artist and audio community. The net result for these efforts has shown another strong year for Latin America, growing 59% year over year.

Like Latin America, the APAC region has seen increased focus and investment from the Group. With offices in Hong Kong and Australia supporting demand generation, account management and customer support, the APAC region has grown into a structure that will support the many regional markets in the territory and allows for future expansion as we look to increase our presence in areas with high growth potential. For this past year, the APAC region experienced 28% growth year over year.

Summary and outlook

Since the year end, demand for the vast majority of our Group products has remained strong, and those sectors negatively impacted by COVID-19 are showing ongoing signs of recovery. All the Group's acquisitions are settling in well, numerous cross business initiatives have already been completed and many more are slated to occur later this year, the benefit of which we expect in the latter part of FY22 and into FY23. Our roadmap across all the brands remains robust, with many new product introductions planned to occur later in F22. Accordingly, we are now cautiously optimistic about the prospects for modest revenue growth in the current year.

Our growth strategy continues to pay off; providing focus and clarity on where we should invest and deploy our resources. This focus has been a crucial element in enabling us to navigate through the myriad of macroeconomic and pandemic related issues we have encountered across this past year. Whilst there remains considerable opportunity for operational leverage across the Group as revenue increases, in FY22 operating costs will increase to reflect current tightness in supply chains, travel resuming and our intention to increase investment, where appropriate, in order to fuel future growth in the business.

Our teams have worked passionately and diligently through these continuing uncertain times and delivered impressive financial and operational results for our investors. We look forward to another year of innovation and expansion.

Tim Carroll
Chief Executive Officer
15 November 2021

4 The organic constant currency growth rate is calculated by comparing FY21 revenue to FY20 revenue adjusted for FY21 exchange rates and the impact of acquisitions (more detail in the Financial Review on page 27).


Zone 1
Zone 2
Zone 3
Zone 4
Optimal Audio
Local source
MIC
MUSIC
1
2
3
4
6

strea

Optimal Audio

On 20 April 2021, Focusrite Group launched a new brand – Optimal Audio – dedicated to the growing sector of commercial audio.

Focusrite's CEO explains: "Taking a considered view of the commercial audio sector led us to conclude that it represents a maze of overly complicated products… Optimal Audio sets out to do things differently."

Optimal Audio offers a one-stop solution for small to medium commercial installations. Primary to the ecosystem is four and eight-zone, powered and non-powered Zone controllers with DSP.

Optimal Audio's multi-device WebApp allows unlimited access to configure settings and has a simple user interface. Zone controllers can be supplemented by wall-mounted controllers called ZonePad.

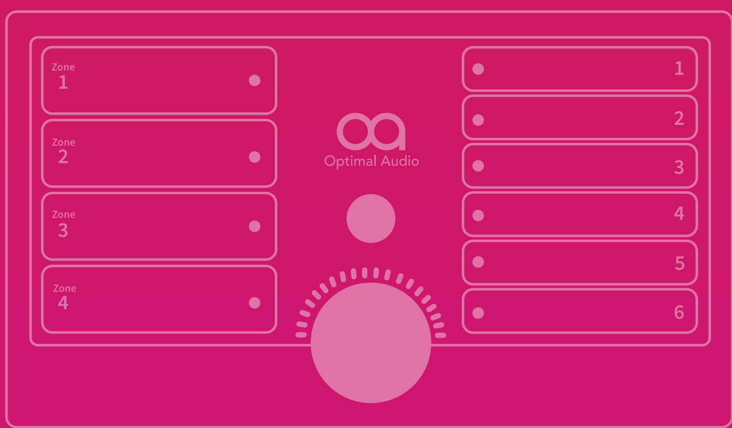
Optimal Audio's amplifiers comprise three SmartAmps with DSP, multichannel direct drive constant voltage, and optimised presets with half-rack and full-rack options.

Optimal Audio's loudspeakers include five ceiling speakers named Up, four on-wall speakers called Cuboid, and two subwoofers named Sub.

CEO for Optimal Audio and Martin Audio, Dom Harter, summarises: "Optimal Audio may be a young brand, but as part of the Focusrite Group it has an impressive pedigree. We have combined innovation and experience… creating a high-quality one-stop commercial audio offering."

Optimal Audio has signed distribution in over 40 countries, with products starting to ship soon.

mlined portfolio working seamlessly together



SEQUENTIAL®

A legacy of musical inn

Over four decades, Dave Smith has led the evolution of synthesis, developing premium instruments for musicians.

Founding Sequential as Sequential Circuits in 1974, Dave designed and launched the Prophet-5, the world's first fully programmable polyphonic synth, and then the first musical instrument with an embedded microprocessor in 1977. Shortly after came the Prophet-10 and numerous other innovative products. Dave was also key to establishing MIDI as a universal standard – he and Ikutaro Kakehashi (Roland) were awarded a Technical Grammy in 2013.

Following time with Yamaha, Korg and Seer Systems, Dave re-launched his business in 2002. Initially registered as Dave Smith Instruments, Yamaha returned ownership of the brand, allowing Dave to re-name the business Sequential in 2018.

In 2020, Sequential launched a new Prophet-5, embracing the best of previous versions with the best of modern technology. The Prophet family remains pivotal, with the Pro series added from 2014 and then in 2016, the OB-6 in collaboration with industry legend, Tom Oberheim.

Innovation and range expansion continues with the new Take 5 at a more accessible price point, creating opportunities to promote a wider range of Focusrite Group products.

The Sequential brand remains strong, with a loyal following and high-profile user such as Taylor Swift, Peter Gabriel, and Maroon 5.

Just like Focusrite, Sequential culture centres around its people and their passion for music. Based in San Francisco, their loyal, close-knit team know their customers intimately, bringing expertise in our biggest territory.

The future offers significant opportunities to bring Sequential to a wider audience.

Delivering impressive growth

> Overall the Group has had a highly successful year, delivering impressive revenue growth of 34%, adjusted EBITDA[5] growth of 67%, and 75% in adjusted diluted earnings per share (EPS)[6].

Income statement

	2021 £m			2020 £m		
	Adjusted	**Adjusting items**	**Reported**	Adjusted	Adjusting items	Reported
Revenue	**173.9**	**–**	**173.9**	130.1	–	130.1
Cost of sales	**(89.8)**	**–**	**(89.8)**	(70.2)	–	(70.2)
Gross profit	**84.1**	**–**	**84.1**	59.9	–	59.9
Administrative expenses	**(42.7)**	**(5.6)**	**(48.3)**	(36.9)	(15.1)	(52.0)
Operating profit	**41.4**	**(5.6)**	**35.8**	23.0	(15.1)	7.9
Net finance cost	**(0.8)**	**–**	**(0.8)**	(0.9)	–	(0.9)
Profit before tax	**40.6**	**(5.6)**	**35.0**	22.1	(15.1)	7.0
Income tax expense	**(6.9)**	**0.2**	**(6.7)**	(2.9)	–	(2.9)
Profit for the period	**33.7**	**(5.4)**	**28.3**	19.2	(15.1)	4.1

5 Comprising earnings adjusted for interest, taxation, depreciation, amortisation, goodwill impairment and adjusting items.
6 Adjusted for amortisation of acquired intangible assets, goodwill impairment and other adjusting items (see note 15, note 19 and table reconciliation on page 104).

Revenue
Revenue for the Group grew 34% from £130.1 million to £173.9 million; and after adjusting for acquisitions and constant currency this represents an organic growth of 28%. In FY21 Martin Audio contributed a full 12 months compared to just eight months in FY20. Sequential was acquired at the end of April 2021 and FY21 includes four months of revenue contribution.

The Euro average exchange rate was €1.14 (FY20: €1.14). The USD weakened from $1.27 in FY20 to $1.36 in FY21. This has reduced revenue by £3 million but is neutral at a gross profit level as the majority of cost of sales are also charged in USD.

£m	FY20 Revenue	FY20 Exchange	FY20 Organic[7]	**FY21 Revenue**	**FY21 Acquisition**	**FY21 Organic[7]**	**Revenue growth**	**Organic growth**
FAEL	100.7	(3.1)	97.6	**124.4**	**–**	**124.4**	**24%**	**28%**
ADAM Audio	17.4	0.1	17.5	**23.8**	**–**	**23.8**	**37%**	**36%**
Martin Audio	12.0	(0.2)	11.8	**20.4**	**(5.9)**	**14.5**	**70%**	**23%**
Sequential	–	–	–	**5.3**	**(5.3)**	**–**	**–**	**–**
Total	130.1	(3.2)	126.9	**173.9**	**(11.2)**	**162.7**	**34%**	**28%**

Growth of 34% for the full year has slowed since the half year (HY21: 91% reported), in part due to the strong comparators in H2 FY20 during the initial lockdowns, but also due to the supply constraints experienced and widely reported in the second half of this year, in particular for electronic chips used in many of the Group's products. Whilst our operations teams have secured supply and largely prevented stock outages with our supply partners, this has inevitably been a drag on our second half results and we expect this to continue throughout at least the first half of next financial year.

The FAEL segment comprises the products used in the recording and broadcasting of music or voice. The primary ranges are Scarlett and Clarett, our biggest selling products. In this segment, revenue increased by 24% to £124.4 million (FY20: £100.7 million), driven by ongoing strong demand across our user base.

ADAM Audio makes studio monitors of the type used by many of the Group's customers. Revenue has grown by 37% in the year to £23.8 million (FY20: £17.4 million), with demand remaining strong across the range and particularly for the more competitive T series monitors.

Martin Audio has returned to growth in the second half of the year, as live sound begins to return to pre-COVID-19 levels. Growth for the full year was 70%, and on an organic basis 23%, with revenue of £20.4 million for 12 months, compared to £12.0 million for eight months in FY20.

Sequential was acquired at the end of April 2021 and had revenue in the period of £5.3 million.

	FY20 Revenue	FY20 Exchange	FY20 Organic[7]	**FY21 Revenue**	**FY21 Acquisition**	**FY21 Organic[7]**	**Revenue growth**	**Organic growth**
North America	50.8	(2.8)	48.0	**74.6**	**(4.6)**	**70.0**	**47%**	**46%**
EMEA	56.5	0.8	57.3	**69.3**	**(3.6)**	**65.7**	**23%**	**15%**
Rest of the World	22.8	(1.2)	21.6	**30.0**	**(3.0)**	**27.0**	**32%**	**25%**
Total	130.1	(3.2)	126.9	**173.9**	**(11.2)**	**162.7**	**34%**	**28%**

All the major geographic regions grew for each of the major product categories year on year. North America represents 43% of the Group's revenue and grew at 47% (organic: 46%) to £74.6 million and is now the largest region for the Group. Within this region, FAEL grew at 43% for the year, despite demand in the second half constrained by supply. Martin Audio saw markets begin to open and reported growth of 73% for the second half of the year.

EMEA, which represents 40% of Group revenue, grew by 23% (organic: 15%) to £69.3 million. This growth was led by ADAM Audio products at 35% for the year, which were less impacted by the components shortage than Focusrite, which grew at 12% for the year.

The ROW comprises mainly Asia and South America and represents the remaining 17% of Group revenue. Revenue in ROW grew by 32% (organic: 25%). APAC grew at 28% year over year and was particularly strong for Martin Audio, with 76% growth across the year due to strong demand in the installed sector. Investments in sales and marketing delivered growth of 58% in Latin America.

Segment profit
Segment profit is disclosed in more detail in note 8 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 Sequential upon acquisition.

7 The organic constant currency growth rate is calculated by comparing FY21 revenue to FY20 revenue adjusted for FY21 exchange rates and the impact of acquisitions.

Financial Review
continued

Gross profit
In FY21, the gross margin was 48.4%, up from 46.0% in FY20, which was an increase from 42.2% in FY19. This steady increase is the result of several short and long-term factors. FY21 includes the one-off benefit of a refund of US duty of £1.5 million, following a reassessment of duty codes in 2020.

Historically there have been a number of factors at play. One factor is routes to market, with more products being sold either directly to dealers rather than distributors or directly to the consumer. Over the long term the change in business mix, with the removal of the lower margin distribution business and the growth of the higher margin ADAM Audio business at approximately 58% has also been another structural factor. Focused cost and price management, reducing royalties and tariffs, and management of margin to get the best value within the reseller channel are other longer-term factors. Going forward the Group is mindful of the impact of components shortages and increased freight charges on future revenue and underlying gross margin.

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 £48.3 million, down from £52.0 million last year. These costs include depreciation and amortisation of acquired intangible assets, £4.0 million (FY20: £3.0 million), a goodwill impairment in FY20 of £10.2 million relating to Martin Audio and adjusting items of £1.6 million (FY20: £1.9 million), which are explained below in the adjusting items section. Excluding these items, administrative costs were £42.7 million (FY20: £36.9 million), an increase, of £5.8 million over the prior year.

Acquisitions contributed to this increase, with the annualisation of Martin Audio contributing £1.6 million and the inclusion of Sequential a further £1.0 million. In addition, the Group has invested in IT systems to provide secure and scalable platforms to enable teams working at home for much of the year. To support the growth of the Group we expect this investment to continue to strengthen our IT controls and allow teams across our brands to collaborate effectively on new projects. Offsetting these increases were COVID-19 related savings of approximately £2 million due to lower travel costs and an almost complete lack of trade shows during the period. These costs are expected to return as markets reopen.

> In FY21, the gross margin was 48.4%, up from 46.0% in FY20.

EBITDA[8]

EBITDA is a non-GAAP measure but it is widely recognised in the financial markets and it is used within the Group as the basis for some of the incentivisation of senior management. Adjusted EBITDA increased from £28.6 million in FY20 to £47.5 million in FY21, an increase of 67% (see table below).

	2021 £m			2020 £m		
	Adjusted	**Adjusting items**	**Reported**	Adjusted	Adjusting items	Reported
Operating profit	**41.4**	**(5.6)**	**35.8**	23.0	(15.1)	7.9
Add – amortisation of intangible assets	**4.1**	**4.0**	**8.1**	3.7	3.0	6.7
Add – depreciation of tangible assets	**2.0**	**–**	**2.0**	1.9	–	1.9
Add – goodwill impairment	**–**	**–**	**–**	–	10.2	10.2
EBITDA[8]	**47.5**	**(1.6)**	**45.9**	28.6	(1.9)	26.7

8 EBITDA is defined as earnings before tax, interest, depreciation, amortisation and goodwill impairment. The items treated as adjusting items are explained in note 15.

Depreciation and amortisation

Depreciation of £2.0 million (FY20: £1.9 million) is charged on tangible fixed assets on a straight-line basis over the assets' estimated useful lives. Amortisation is mainly charged on capitalised development costs, writing-off the development cost over the life of the resultant product. Development costs related to an individual product are written-off over a period up to three years for Focusrite and Novation, up to eight years for ADAM Audio and up to 11 years for Martin Audio, reflecting the different lifespans of the products. Normally, the capitalised development costs are slightly greater than the amortisation, reflecting the continued investment in product development in a growing group of companies.

During FY21, the capitalised development costs were £4.9 million (FY20: £4.6 million), compared with the amortisation of £3.5 million (FY20: £3.0 million). In FY21 the Group's engineering teams refocused on meeting demand and then supply constraint issues, and as a result direct investment into new products decreased as a percentage of revenue. This is expected to recalibrate in FY22 back to historic levels, as the Group's R&D teams build out the future product roadmap, leveraging teams across all the Group brands.

Adjusting items

In FY21 the Group acquired Sequential with associated acquisition costs relating to the transaction of £0.7 million. In addition, as part of the acquisition price, the Group has agreed to pay employee bonuses in relation to agreed gross profit targets to December 2022; £0.8 million of adjusting item costs has been included for these bonuses, which are expected to increase pro rata in FY22. A further £0.1 million of employee-related costs associated with restructuring have also been included in adjusting costs in FY21.

In FY20 the acquisition of Martin Audio had associated acquisition costs totalling £1.7 million. Adjusting items also include amortisation of the intangible assets from acquisitions of £4.0 million (FY20: £3.0 million). This has increased due to the inclusion of amortisation on the Sequential brands and is expected to increase next year due to annualisation. For further explanation please see note 15 to the Group's financial statements.

In FY20, at the height of the pandemic, the Group reassessed the £12.6 million of goodwill relating to the acquisition of Martin Audio. Taking into consideration the impact of the consequential lockdowns on the industry and the uncertainty over the impact on future margins, and despite a clear belief that the live sound market would recover in the foreseeable future, the Board recognised an impairment of £10.2 million. This has been reassessed at the current year end, and no further impairment is considered necessary, with Martin Audio returning to growth in H2 FY21 and performing in line with expectations.

Foreign exchange and hedging

Euro exchange rates have been consistent over the last year, with more volatility in the Dollar rates.

Exchange rates	**2021**	2020
Average USD:GBP	**1.36**	1.27
EUR:GBP	**1.14**	1.14
Year end USD:GBP	**1.38**	1.34
EUR:GBP	**1.12**	1.12

The average USD rate has weakened from $1.27 to $1.36. The USD accounts for over 50% of Group revenue but over 70% of cost of sales, so this has decreased 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 GBP. The policy adopted by the Group is to hedge approximately 75% of the Euro flows for the current financial year (year ended August 2022) and approximately 50% of the Euro flows for the following financial year (FY23). In FY20, approximately three-quarters of Euro flows were hedged at €1.11, and the average transaction rate was €1.14, thereby creating a blended exchange rate of approximately €1.12. 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.

Elsewhere, within finance income and finance costs, there is the interest paid on the revolving credit facility.

Once again the Group has had a year with several significant achievements whilst coping with external headwinds.

Corporation tax

Historically, the effective corporation tax rate as a proportion of profit before tax has been 10-12% due largely to enhanced tax relief on development costs. In FY20, the corporation tax charge was £2.9 million on reported profit before tax of £7.0 million; at an underlying level, the effective tax rate was 13.3% on adjusted profit before tax of £23.0 million.

In FY21, the corporation tax charge totals £6.7 million on reported profit before tax of £35.0 million, an effective tax rate of 19.3%. Allowing for adjusting items the effective tax rate is 17.0% on adjusted profit before tax of £40.6 million. This increase in effective tax rate is due to the Group moving to the Research and Development Expenditure Credit ('RDEC') basis of relief in which the Group receives smaller credit to operating costs and the profit is then taxed at the headline rate (19% in UK). Previously to this the Group was able to claim relief for research and development relief in UK as a small or medium-sized enterprise ('SME').

Moving forward we expect the effective tax rate to remain closer to the UK headline rate of 19%, increasing to 25% in April 2023 in line with the proposals outlined by the Chancellor.

Earnings per share

The basic EPS for the year was 48.8 pence, up 587% from 7.1 pence in FY20. This increase is due the strong growth in operating profits and the impact of the goodwill impairment of £10.2 million in profits in FY20. The more comparable measure of the growth of the trading profits including the dilutive effect of share options, is the adjusted diluted EPS. This grew to 57.5 pence, up 75% from 32.8 pence in FY20.

	2021 pence	2020 pence	Growth
Basic	**48.8**	7.1	587%
Diluted	**48.2**	7.0	589%
Adjusted basic	**58.2**	33.2	75%
Adjusted diluted	**57.5**	32.8	75%

More information on the adjustments included to calculate adjusted basic and adjusted diluted EPS is in note 18 of the financial statements.

Balance sheet

	2021 £m	2020 £m
Non-current assets	**62.8**	52.3
Current assets		
Inventories	**20.8**	19.4
Trade and other receivables	**16.3**	18.0
Cash	**17.3**	15.0
Current liabilities	**(25.6)**	(26.0)
Non-current liabilities	**(7.3)**	(21.8)
Net assets	**84.3**	56.9

Non-current assets

The non-current assets comprise: goodwill of £10.1 million, other intangible assets of £49.1 million and property, plant and equipment of £3.6 million. The goodwill of £10.1 million (FY20: £7.9 million) relates to acquisitions as follows: £0.4 million for Novation purchased in 2004, £4.9 million for ADAM Audio purchased in July 2019, £2.4 million for Martin Audio purchased in December 2019 and £2.4 million for Sequential purchased in April 2021.

The other intangible assets of £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 £30.3 million (FY20: £26.0 million). This increase of £4.3 million comprises the excess during the year of capitalised development costs over the amortisation (£1.4 million) and acquired capitalised development costs (consisting of acquired designs and designs in development with a year end net book value of £6.0 million). Approximately 70% of development costs are capitalised and it is intended that they are amortised over the life of the relevant products.

In addition, the remaining intangible assets, totalling £18.8 million (FY20: £14.4 million), include brands acquired as part of the acquisitions, to be amortised over ten years for ADAM Audio, 20 years for Martin Audio and 15 years for Sequential.

Working capital
At the end of the year, working capital was 6.6% of revenue (FY20: 8.8%). In both years this is much lower than the historic norm of approximately 20%. The ongoing substantial increase in demand and the supply constraints seen in the latter half of FY21 have meant that inventory levels have remained low at the year end. Manufacturing capacity has been increased and we believe that supply constraints will ease such that stock will be replenished towards the mid-point of FY22. In addition, the Group has continued to place great emphasis on the timely collection of debts. Consequently, overdue debtors, especially within FAEL, have been very low. Creditors continue to be paid on time.

The working capital at ADAM Audio and Martin Audio has remained broadly stable across the year. ADAM Audio has seen a slight increase in levels of stock in order to support the distribution of Focusrite products, and Martin Audio has seen an increase in the overall level of debtors, reflecting the higher level of sales at the end of FY21 compared to FY20.

Cash flow

	2021 £m	2020 £m
Cash and cash equivalents at beginning of year	**15.0**	14.9
Cash and cash equivalents at end of year	**17.3**	15.0
Net increase in cash and cash equivalents (per Cash Flow Statement)	**2.3**	0.1
Add – equity dividends paid (per Cash Flow Statement)	**2.6**	2.3
Free cash flow[9]	**4.9**	2.4
Add – adjusting item cash outflows:		
Acquisition of subsidiary (net of cash acquired) (per Cash Flow Statement)	**13.9**	35.3
Bank loan (net of arrangement fee) (per Cash Flow Statement)	**11.9**	(11.6)
Adjusting items (cash outflow)	**0.8**	2.1
Underlying free cash flow	**31.5**	28.2

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

In FY21, the net cash balance at the year end was £17.3 million (FY20: £15 million). The Group also has a £40 million revolving credit facility with HSBC and NatWest due to expire in December 2024, taken on to fund the Martin Audio acquisition in 2019. In April 2021 the Group drew down $10 million (£8 million) of debt to fund the acquisition of Sequential, this has now been repaid, leaving the Group with a net cash position at the end of the year.

During the second half, the strong increase in revenue contributed to both higher profits and lower stock. Therefore, the underlying free cash flow for the full year was £31.5 million (FY20: £28.2 million) leading to a year end net cash position of £17.3 million. Within this, the movement in working capital was an inflow of £1.7 million (FY20: inflow of £13.7 million). With the intended rebuilding of stock within the Group in the next financial year there will be a marked outflow of working capital to return closer to historic levels of 20% working capital compared to revenue. Capital investment this year totalled £7.0 million (FY20: £9.6 million), of this, £4.9 million related to capitalised R&D reflecting the Group's ongoing commitment to product development. We expect this to increase in FY22, as we develop further several major new initiatives on our product roadmap.

Dividend
In line with the Group's progressive dividend policy, the Board is proposing a final dividend of 3.7 pence per share (FY20 final dividend: 2.9 pence), an increase of 28%, which would result in a total of 5.2 pence per share for the year (FY20: 4.2 pence). This represents an adjusted earnings dividend cover of 11.1 times (FY20: 7.8 times).

Summary
The Group has again performed well, showing substantial financial improvement despite facing several external headwinds. The ongoing successful integration of Martin Audio and ADAM Audio into the Group has continued, with the launch of the Optimal brand, and the distribution of each others brands in ADAM Audio and FAEL. The acquisition of Sequential in April 2021 has further added to the Group portfolio of world leading brands, with plans to support the growth through our common US entity, which caters for all Group brands. Despite the challenges of 2021 the Group has grown significantly and continues to put down strong foundations to support future development.

Sally McKone
Chief Financial Officer
15 November 2021

Principal Risks and Uncertainties

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

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

COVID-19

Unsurprisingly, and for a consecutive year, a summary of the risks that COVID-19 poses to the business and the actions being taken feature highly in this risk report.

COVID-19 is changing and has already changed how we view uncertainty due to the unique set of circumstances the pandemic has created. Acting in the face of uncertainty has been a defining theme during the financial year. Against a backdrop of rapidly changing restrictions, short time-frames within which to make decisions and contextual uncertainty, the principal, emerging and operational risk landscape has been re-evaluated in light of the effects of the COVID-19 pandemic.

The Group has been careful to maintain its awareness of uncertainty and not become complacent or hardened in its attitude to the balance between enterprise risk and opportunity in relation to the stress of the situation. Decisions taken have been assessed with regard to liquidity, balance sheet strength and financial forecasts through scenario lenses.

Risk identification and assessment

Risk management is coordinated by the legal team. Each Group company has its own risk register. Each business leader is responsible for updating the risk register for their Group company and for identifying, analysing, evaluating, managing and monitoring the risks and emerging risks in their respective areas. These risks are then evaluated for their significance as a Group-level risk.

The risk register is prepared using consistent risk factors and an impact and likelihood evaluation and includes key controls, mitigating activities and/or controls and action plans in respect of the principal risks which form the basis of the principal risks and uncertainties disclosed in this report.

In light of the COVID-19 pandemic the Group has conducted a wider-ranging view of its risks during the financial year, with members of the management team reviewing risks in relation to:

- cyber and data security and the impact of home working;
- disruption to the supply of components and logistics;
- health and safety;
- financial controls;
- business resilience and liquidity levers;
- lessons learned from the Group's response to the first two national lockdowns; and
- business continuity.

As in all sectors, the music industry continues to experience profound and lasting structural changes. The Group has seen a transition away from bricks and mortar retail to online shopping, therefore our efforts to learn new ways to serve customers, collaborate with partners and create value for our shareholders are included in the mitigation plans for each risk.

Approach to risk management

Assessment of principal risks and uncertainties

The business leaders have carried out a robust assessment of the principal risks and uncertainties facing the Group, including any emerging risks, and those that would threaten its business model, future performance, solvency or liquidity. The following updates have been made to the principal risks and uncertainties reported in the previous year as a result of this assessment.

- Risks are no longer solely assessed on a potential financial impact but also the effect on the Group's EPS, NPS and reputation.
- Supplier concentration has been transformed into a product supply risk to better reflect the risk that we might be unable to service customer demand or provide products of a suitable quality in today's uncertain world.
- Trust in the Group's brands helps enhance its worldwide reputation for quality and innovation and therefore the Group is enhancing the protection of its intellectual property portfolio so that customers can be assured they are purchasing a genuine product. To support appropriate protections of all intellectual property and other proprietary rights:
  - the Group has hired an experienced intellectual property lawyer who is designing an active programme to protect our intellectual property rights; and
  - a brand protection programme has been solidified in order to identify and tackle trademark and design infringements

  therefore the risk is being mitigated but remains a matter for vigilance;
- The Group recognises that, as with all businesses, it is vulnerable to faceless crimes, therefore ensuring the security of our customers' data remains a key priority, with action being taken to adopt a Group-level approach for customers to exercise their right of freedoms as data subjects to ensure a consistent level of data security. Learning from cyber incidents is shared across the Group so that any weaknesses in the Group's cyber defences are immediately rectified.
- The Group's approach to ESG reflects the traction it is gaining globally. The Group has appointed a full-time Head of Sustainability and engaged an external sustainability consultancy company that has conducted an ESG materiality review that revealed no red flags. Going forward, the Group will be implementing a series of recommendations that will not only help position the Group as an ESG leader in our industry but also ensure that climate change does not increase as a material threat to the Group.
- In the post-COVID-19 world, attracting and retaining key talent remains critical to the Group's success. Unconscious bias training has been rolled out to ensure that hiring managers bring an equality-lead approach when reviewing potential candidates.
- Whilst not a standalone risk, freight is both more expensive and less available than pre-pandemic. There is an emerging risk that we may be able to produce the goods but not get them to retail. We continue to actively monitor the situation as all businesses are affected and so to mitigate the risk, the Group ensures that our long-standing 3PL partners have visibility of anticipated sea and air freight volumes months in advance, giving us the best probability of securing space from Asia into other global regions.

Principal Risks and Uncertainties
continued

Risk	Description	Mitigation
Business strategy development and implementation	As the world emerges from the COVID-19 pandemic, uncertainty remains. Therefore ensuring that the Group's business strategy is attuned to customer requirements and emerging opportunities and is effectively implemented will protect the business. Therefore the Group needs to understand and properly manage strategic risk, taking into account sector specific risk factors (which differ between the different brands in the business), in order to deliver long term growth for the benefit of the Group's stakeholders.	• The Group reviews its business strategy on a regular basis through (restrictions permitting) face-to-face meetings to determine what strategies are needed to maximise sales and profit and efficiencies in business operations. • The Executive Directors present the Group's rolling three-year business plan to the Board once a year for review and challenge by the Non-executive Directors. • The varying brands within the business provide geographic and product diversity; coupled with a disciplined approach to sales, budgeting and cost control, the Group ensures the generation of strong profits and cash flow. • Business leaders consider strategic risk factors, wider economic and industry-specific trends that affect the competitive position of its products.
Product innovation	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.	• Research and development continues to be one of the Group's largest investments. • Continually reviewing the design and performance of the various product ranges and pushing our designers to keep our products at the cutting edge of innovation is a key strategy in the Group's resilience. • Teams dedicated to product refreshes have been enlarged and a wide range of research participants provide feedback on test products.
Product supply	Due to the global supply chain issues, risks to our ability to service customer demand are real and present.	• During the past year, the Group has moved to regularly communicating directly with key semi-conductor companies instead of via distributors, which has helped to ensure the availability of materials to the Group. • The Group has provided an extended production forecast of 12 months (rolling) to our manufacturing partners and key material suppliers which has enabled them to better manage the sourcing of materials and fulfil orders. • Where possible, the Group makes spot purchases of components in order to ensure their future availability.

Risk	Description	Mitigation
Customer-facing systems	By customers, the Group refers to its reseller and distributor partners on whom it depends to take products to market. The Group's performance depends on the high-quality engagement of those customers, and on their ability to drive and service customer demand, particularly in markets where the Group operates via a single distributor or has large individual reseller customers. There is a risk that the business fails to adopt and/or make effective and efficient use of new software, hardware and mechanisation to provide its customers with service levels that allow them to meet or exceed end users' expectations. These systems, software and platforms are ever changing, as technology evolves. A failure of or breakdown in the relationship with a key reseller or distributor, or even the failure of a major customer of a distributor, could significantly and adversely affect the Group's business.	• The Group has strengthened its documented arrangements with its resellers and distributors to ensure they are holding sufficient stock levels and are motivated to promote the brands. • The Group works with its resellers to incentivise them to be able to offer a comparable in-store and online experience for end users. • The Group has continued to increase its direct-to-market offering and plans for further expansion in the coming year. • Continued investment in the Group's e-commerce platform has led to growth in the Group's direct-to-consumer offering. • There is also continual monitoring of performance of the Group's Net Promoter Score, with a particular focus by the customer support team on improving the user experience. • The Group also works effectively with influencers to promote its brands.
Information security, data privacy, business continuity and cyber risks	The unencumbered availability and integrity of the Group's IT systems is ever critical to successful trading. The Group continues to invest heavily in order to ensure a system that can record and process substantial volumes of data, prevent obsolescence and maintain responsiveness. The threat of a cyber security breach or an unauthorised or malicious attack is an ongoing and increasingly sophisticated risk that the Group believes would negatively impact its reputation. Similarly, the inadvertent processing of customer or employee data in a manner deemed unethical or unlawful could result in significant financial penalties, remediation costs, reputational damage and/or restrictions on our ability to operate. The Group is noticing: • a changing attitude by global users towards their data and how it is used; • increasingly complex and fast-evolving data protection laws and regulation; and • rapid technological advances delivering an enhanced ability to gather, draw insight from and monetise personal data.	• The Group's Privacy Council and Committee are now well established and are effective in the operation of privacy protection. • The Group has adopted a global approach for its customers to exercise their rights of freedom as data subjects. This process is handled by our customer support team who respond to requests as to the data the Group processes on their behalf. • The Group has run several spoof exercises to promote awareness of the increasingly sophisticated methods of attack cyber criminals deploy. • Systems vulnerability and penetration testing continues to be carried out regularly by both internal and external resources to ensure that data is protected from corruption or unauthorised access or use. • Critical systems backup facilities and business continuity plans are reviewed and updated regularly. • IT risks are managed through the application of internal policies and change management procedures as well as enshrining security requirements and service level agreements on third-party suppliers in contractual documentation. • The Group's data protection and information security policies are mandatory reading and are kept under regular review. • The Group has prepared a roadmap to address gaps between current and target risk exposures. • Each major incident that arises around the Group is followed by a Major Incident Report and submitted to the Board for review. Transparency in IT operations is key to protecting the Group from risks and accountability for the remediation of risk. • Major Threat reports are generated as threats to the Group emerge. They are submitted to the Board for review.

Principal Risks and Uncertainties
continued

Risk	Description	Mitigation
Intellectual property	The Group sees 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.	• The Group has an ongoing programme to support appropriate protections of all intellectual property and other proprietary rights. • The Group is conducting trademark searches before the launch of new products in order to reduce the risks of infringing third-party rights, and is applying for trademark, design and/or patent protection in order to obtain timely and appropriate protection of its IP assets. • The Group has started a brand protection programme in order to identify and tackle trademark and design infringements, and it documents the terms on which it will allow the use of its registered rights. • The Group has also hired an experienced intellectual property lawyer who is designing an active programme to protect our intellectual property rights and is in the constant process of raising awareness within the Group on the importance of protecting the Group's IP assets, and not to infringe intellectual property rights from third parties.
People	People are critical to the Group's ability to meet the needs of its customers and end users and achieve its goals as a business. This requires the retention of senior managers and technical personnel as well as on our ability to attract, motivate and retain highly qualified people.	• Making Focusrite a great place to work remains central to the Group's strategy. • The Group actively promotes diverse and inclusive thinking in its recruitment process, shying away from using automated recruitment software and instead having hiring managers consider each application individually. • The Group is implementing ways of sharing people resources across the Group, allowing for flexibility in employment and standardisation of the benefits offered across the Group. • The Board continues to consider the development of senior management to ensure there are opportunities for career development and promotion. • The Remuneration Committee reviews Executive Director and senior management remuneration at least annually and formulates packages to retain and motivate these employees, including long-term incentive schemes. • The Nomination Committee considers and reviews the skills, diversity, experience and succession planning of the Board.
Climate change	The impact of climate change is integral to the Group's risk management approach. Climate change is leading to increasing frequency of severe weather e.g. drought, high rainfall, flooding and heatwaves. Failure to deliver on climate change initiatives, particularly around the reduction in the use of energy and carbon within required timescales, will have medium and long-term climate change risks to residents, businesses and infrastructure.	• The Group will create an action plan following the conclusion of the planned Climate Materiality Assessment to demonstrate our climate leadership and values and define good environmental practice. • In the next financial year we will work across individual business units to measure scope 3 emissions, and define a roadmap to reduce our carbon footprint as well as work with our teams and external partners on the impact we can have on this important issue.

FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report are forward-looking. Although the Directors believe that their expectations are based on reasonable assumptions, any statements about future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.

#WeMakeEvents

UK Red Alert day

5,000

socially distanced event professionals gathered

During the height of the pandemic, Martin Audio felt a responsibility to support the wider industry, in particular 'live events' which was one of the first sectors to stop working and the last to return, leaving many companies, employees and freelancers in desperate straits. Alongside providing support and counsel for its own rental partners in the sector, Martin Audio also joined an industry support movement, #WeMakeEvents, that grew out from the UK industry trade board, PLASA, in early April 2020.

A UK Red Alert day of action took place in August of that year, designed to highlight the plight of the industry and to gain much-needed Government aid. Martin Audio took responsibility for organising the audio for the event with UK partner Capital Sound, alongside TV production and a Facebook stream of the culmination of the day's activity with a specific event in London. These included many of the capital's major landmarks being lit up in red and up to 5,000 socially distanced event professionals gathered along the banks of the River Thames, dressed in red. Closer to home, the Company also supported the Wycombe Swan Theatre and High Wycombe Town Hall being lit in Emergency Red, alongside Martin Audio's own headquarters.

Emboldened by this initial success, #WeMakeEvents had a higher ambition of going international, including a brand design overhaul and a new website, which included significant contributions from Martin Audio's marketing team. Within a month the #WeMakeEvents team helped bring the international industry together as one, including a Global Action Day that saw over 25 countries take part.

Throughout FY21, several members of the team continued to support by raising charitable funds donated to various entertainments charities via #WeMakeEvents, most notably supporting the Survival Tour where a team of UK event professionals cycled around major industry landmarks and hosting a 72-hour live entertainment stream across social media.

Martin Audio's CEO, Dom Harter, concludes, "The live industry was ravaged by the pandemic but thankfully it is slowly returning to some sort of normality, and we are proud and privileged to have played a small part in helping those less fortunate through this time."

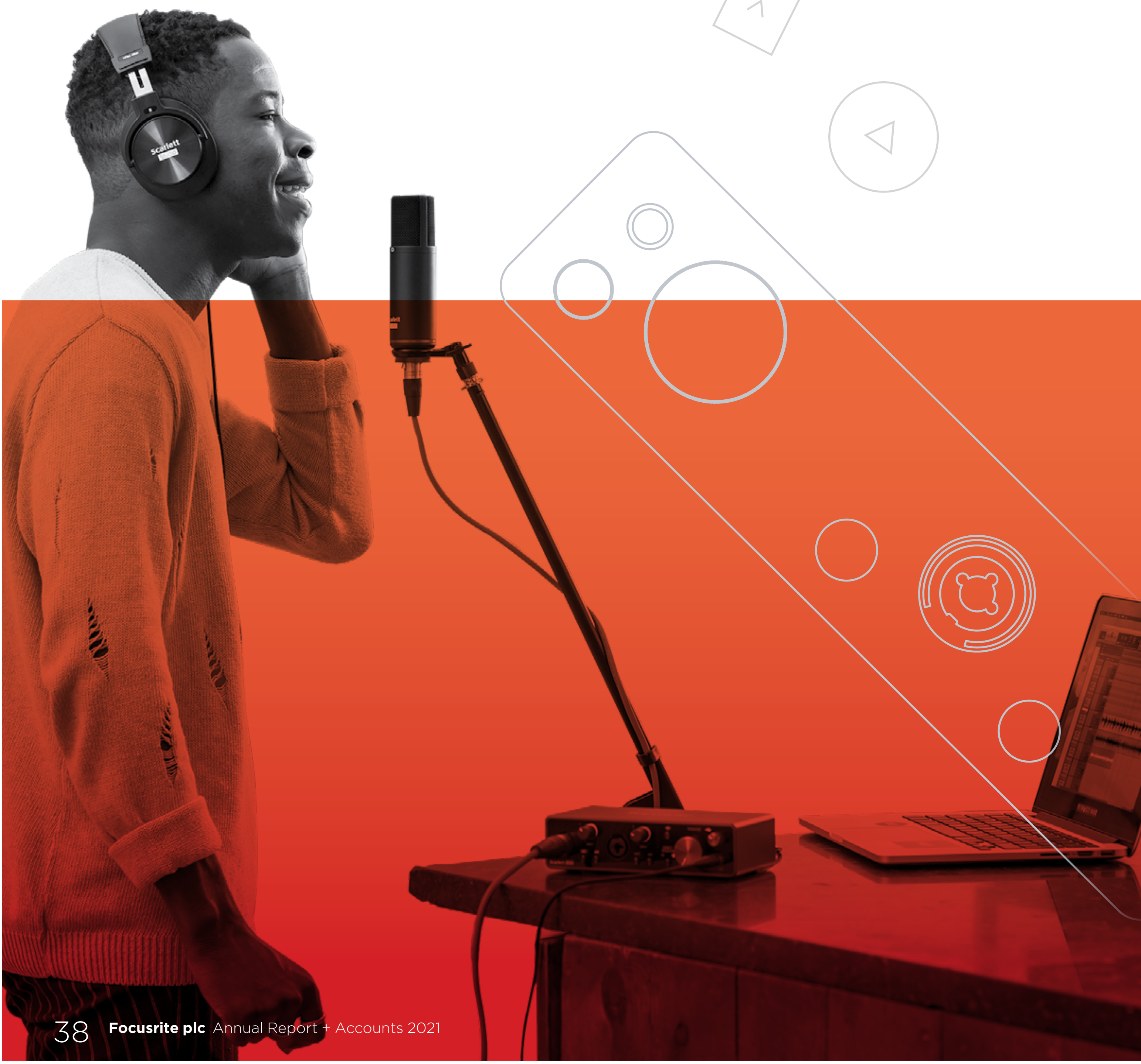
Providing wider industry **support**

ESG
Overview

There are bigger interconnected trends within society that are starting to shape the future of business and it is important for us to reflect these within our ESG strategy.

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.



ESG forms an important and growing pillar of the culture at Focusrite, centred around the objective of creating a 'Great Place to Work', not just for employees but also within society and the environment.
Our approach is divided into four pillars:

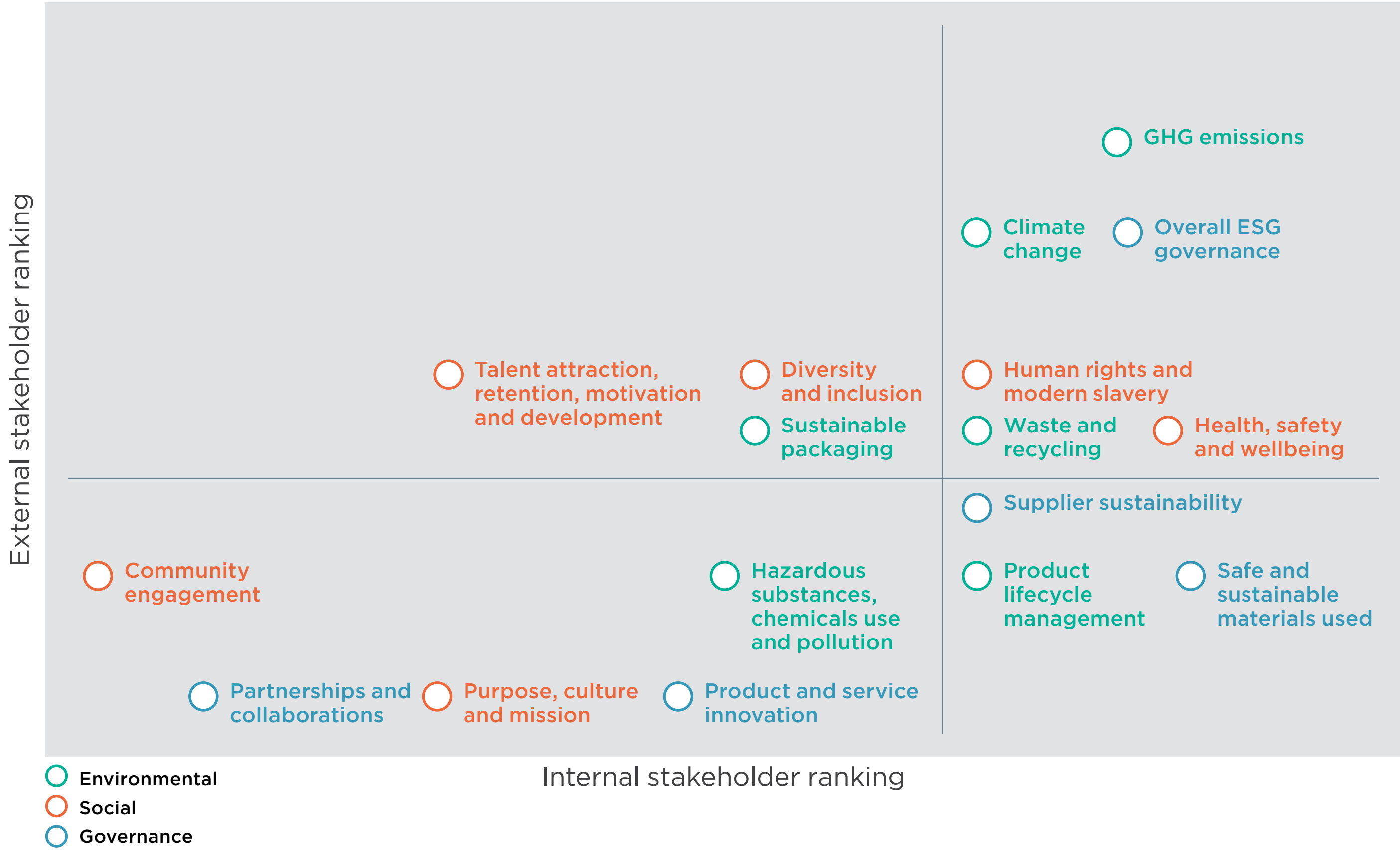
Our ESG pillars	Applicable UN Sustainable Development Goals	Description	Key issues identified
People	5 Gender Equality; 8 Decent Work and Economic Growth; 10 Reduced Inequalities	We're creating a great place to work by embracing the diverse foundations of the world of audio to nurture our talent and build a culture of equity and inclusion. Our people know how they contribute to the overall success of the business and feel purpose and meaning in what they do.	• Health, safety and wellbeing • Talent attraction, retention, motivation and development • Diversity and inclusion • Community engagement
Planet	9 Industry, Innovation and Infrastructure; 12 Responsible Consumption and Production	The products we manufacture have an inherent footprint, but we can design each generation to make better use of raw materials, maximise energy efficiency, demonstrate reliability and ultimately be recycled at the end of their life.	• Climate change[1, 2] • GHG emissions[1, 2] • Supplier sustainability[2]
Partners	8 Decent Work and Economic Growth; 9 Industry, Innovation and Infrastructure	Long-term supplier relationships are an integral part of our strategy. We work together to ensure that key issues are a point of discussion during regular business reviews, ensuring this approach to ESG is recognised as an essential part of supplier selection and retention.	• Waste and recycling • Partnerships and collaborations • Human rights and modern slavery[1, 2]
Passion	9 Industry, Innovation and Infrastructure; 10 Reduced Inequalities	Through relevant and authentic conversation, we create meaningful relationships with customers, encouraging two-way communication to ensure we are providing what they need to help them achieve their goals.	• Customer support • Diversity and inclusion • Localisation

1 Regulatory compliance required.
2 Issue identified as rising in importance.

ESG Overview
continued

To understand the ESG landscape today, we have conducted a thorough ESG Materiality Assessment with an external consultancy and identified a shortlist of 17 issues that are all important to us, our customers, and our peers. The output of this assessment provided the data for our first ESG Materiality Matrix.

ESG Materiality Matrix



As all these issues are important to us, we are either building on existing initiatives to ensure we remain leading in these areas, or dedicating resource if they are new issues that require focus. Mixed in and highlighted next to each pillar are the issues that are non-negotiable, having regulatory requirements associated.

Our most material issues are shown in the top right quadrant, where we can demonstrate ESG leadership, and we see strategic opportunities to amplify our efforts by focusing on these issues:

- Overall ESG governance
- Talent attraction, retention, motivation and development
- Diversity and inclusion
- Health, safety and wellbeing
- Climate change

Within overall ESG governance we have also reviewed the available reporting frameworks, identifying five of the UN's Sustainable Development Goals which are most applicable to our business. During FY22 we will continue our roadmap to TCFD compliance, being mindful of the changing regulatory requirements and standards in this area.

Our People

Creating a Great Place to Work – for everyone.

Support through COVID-19 – health, safety and wellbeing

This year continued to present unique challenges as COVID-19 impacted our ways of working. However, we've pulled together during this period and evolved our practices to meet the ever-changing employment landscape.

Over the year the health and wellbeing of our people has been a priority, and we had to ensure we put mechanisms in place to support them. With a mix of many people fully working from home, others remaining office based as their role could not be carried out at home, and with our global locations, this was quite a challenge. We then had to plan for a transition back to the workplace.

Whilst initially still working under lockdown, we recognised that Zoom fatigue was setting in and working time was getting filled up with online virtual meetings, so we introduced a protected one-hour slot each day that was to be kept meeting-free. We hosted a number of online activities and initiatives such as quiz nights, Christmas parties and pizza evenings plus activities to get people moving such as distance walking competitions, yoga and personal trainer sessions. We also hosted several virtual sessions including dealing with stress and anxiety during COVID-19 and how to adapt to remote working.

Wellbeing support also included the introduction of a new wellbeing team with an online portal offering lots of useful resources for all things wellbeing, including details of the support services people could access based on their location.

As restrictions started to ease, plans were made to ensure we had the relevant health and safety requirements and PPE in place for a safe return. We also provided additional measures to support people such as temperature-checking equipment and offering free COVID-19 tests.

As the COVID-19 vaccination became available, we also offered time off for people to attend their appointments. This was also backed up by the introduction of a vaccination policy, which provided advice and guidance to employees on how we would support them.

ESG Our People
continued

Flexible working has been a key approach to help our employees through the year and the impact which COVID-19 has had on all our lives. We see this as a welcome feature for employees going forward.

It is our people who deliver our business goals and therefore we attach great importance to ensuring the continued health and safety of our workforce and to minimise the distress and disruption caused by any injuries or work-related illnesses which may occur. As the Group grows we recognise the need for a more co-ordinated health and safety management framework in order to continue to address key themes for development to build on our positive health and safety culture.

Engagement and communication
Communication has played a large part in keeping people engaged this year. With all the tools in place to enable home working – the challenge was finding ways to get the 'feel' of being together, which is an important part of the Focusrite culture – while physically being separated.

Seeking regular feedback from our people and how they are feeling during a challenging time has become an important approach we've navigated during the developing COVID-19 crisis. It's been an essential way to communicate the eventual plans to return to the office and enabled us to gauge how people feel about this.

Our new, virtual 'All Hands' meetings became a crucial way to share Company and brand updates with product, financial and people updates as a regular feature. It was also a great way to just check in with each other and take questions from the Group.

Our IT team worked tirelessly to bring together our various brands into one network to enable a streamlined and trouble-free way to communicate and collaborate. This also incorporated the launch of 'The Venue' – a Group-wide intranet site.

This year also saw the second annual employee engagement and experience survey for the majority of our employees. In order to establish the metrics that are important to us, we have been working closely with our people to ensure those metrics are reflective of our culture, aligned to our values, and really mean something to us.

Working with our cultural engagement and experience partners, we have developed an approach which rates five key elements of culture:

- Meaningful Work
- Irresistible Workplace
- Motivating Managers
- Realising Potential
- Leadership and Inspiration

The aim this year was to maintain or improve upon our previous employee net promoter score ('eNPS') and move from 'good' to 'great'. Based on the outputs from the previous year's survey we put measures in place aligned to key engagement drivers, including recognition, development, inclusion, and supportive managers. We were pleased to maintain an eNPS of +43, especially under the impact of COVID-19, and will continue to monitor this across the year.

Talent, development & growth

+43
eNPS score

> In order to establish the metrics that are important to us, we have been working closely with our people to ensure those metrics are reflective of our culture, aligned to our values, and really mean something to us.

Equally important, we had a 95% response rate to the survey, an increase from 83% in the prior year, showing great engagement from our teams.

The engagement survey is developing and evolving, and we are working on expanding the reach of the survey across the entire Group in the coming year.

Talent and development

Along with other organisations, talent and development has been impacted by COVID-19 with each of our brands facing different challenges.

Whilst we paused on headcount growth in some areas, in total across the Group we hired over 100 new people in a variety of permanent and temporary seasonal roles to support the increase in workload, specifically in our technical support teams.

We were able to continue with apprentice and placement programmes and welcomed several students across our engineering, software, marketing, customer experience, product design, and corporate functions. To encourage and foster employee development we supported a number of secondments across the Group. In addition, we continued to see a large number of employees being promoted, moving into new roles, or developing new skills.

In the UK, we put in place an approach to ensure that our people would not be adversely impacted by the changes caused by Brexit. In addition, we supported those who needed help with their new right to work documentation. We also developed training materials on the new visa process for hiring managers including new guidance on alternative hiring methods, such as hiring in other countries.

We always want to keep learning, so training and development were high on the agenda with several ongoing programmes taking place again this year.

We recognised that the new ways of home/office working posed different challenges in how to support virtual teams, managing remotely, asynchronous working, personal effectiveness, and onboarding, so training was put in place to ensure we could offer the best experience for our people.

In addition to many of our leaders attending management/leadership programmes or receiving 1:1 coaching, we continued to focus on developing the capabilities of our leadership, which has been vital in getting us through a difficult year. We also partnered with LinkedIn to offer LinkedIn Learning to our people.

ESG Our People
continued

Diversity and inclusion

This year saw the official launch of the Diversity and Inclusion team. We chose to align the official launch with National Inclusion Week, which we celebrated with a series of webinars and panel sessions. The team is responsible for ensuring best practice across our people processes and supporting change such as reviewing our internal policies, updating, and improving them.

Our employee-led Diversity and Inclusion team is divided into separate workstreams covering different demographic groups to ensure that we look at diversity and inclusion through a wider lens than simply gender. We have initiatives covering the general broader needs around Diversity and Inclusion such as training, recruitment and pay – but with specific initiatives within Pride in Music, Gender Balance in Music, Race and Ethnic Diversity in Music and Accessibility in Music.

Each group has connected with community groups and charities which they feel align to our mission and stay true to what we are trying to achieve in the audio/music world. We also have a calendar of events that we will recognise and support across the year, including Black History Month, International Women's Day, Mental Health Awareness Week, Pride Month, and Women in Engineering Day.

In early 2021 we launched a dedicated area to Diversity and Inclusion on the Group website which is a repository for information covering each of our work groups and what we aim to achieve.

Gender pay gap data for our UK Group employees was officially reported for the first time in FY21, however we have been monitoring this internally for several years and are pleased with the continued positive trends we are seeing in reducing the gap.

This year saw the official launch of the Diversity and Inclusion group. We chose to align the official launch with National Inclusion Week, which we celebrated with a series of webinars and panel sessions.

We continue to make gender pay gap a part of our benchmarking review processes for both existing staff and new vacancies.

We are making hybrid office/home working an ongoing option for many of our people and hope our vacancies will attract a wider pool of people with this added flexibility, especially those who may have seen a fixed working routine to be a barrier to working with us.

We are confident that the work we have done so far is having a positive impact on our people and supports our aim of creating a great place to work. We saw the biggest improvement in this area from the recent engagement survey question, ***'Focusrite is genuinely committed to Diversity and Inclusion'.*** We aim to continue to expand our initiatives across all of our sites and locations over the coming 12 months.

Community support

Ongoing support to local and international communities and organisations continued. It has always been important for us to give back and support like-minded communities and we have been able to form longer-term partnerships with some organisations.

We continue our partnership with Music Crossroads and the Focusrite Residency Scholarship Programme. This programme continues to contribute positively to young, talented musicians' livelihoods by providing relevant and accessible quality music education. The programme currently has 16 scholarship beneficiaries studying at the Music Crossroads Academies in Malawi, Mozambique and Zimbabwe.

We are also pleased to commence a two-year partnership with Music Support, a charity that helps those in the music and live events industries affected by mental ill health.

Early in the COVID-19 pandemic we worked with #WeMakeEvents (see page 37), a collaboration of over 20 industry organisations that have come together to stage events and campaigns which aim to raise funds and awareness for industry professionals.

We have also supported a number of other community groups such as food banks, LGBT+ health and wellbeing service, youth centres, schools and specialist interest community groups by providing them with Focusrite Group kit and financial aid.

Sound bites from the 2021 Hive Survey – Anonymous

Team atmosphere, culture and cohesion are the pinnacle example of my professional career. Leadership is brilliant and approachable and their commitment to progress and improvement is very commendable.

Focusrite is a workplace where I feel valued, my opinions are listened to, and I feel an important and integral part of the organisation.

I love how genuine the company is about improving its stance on D&I. Nothing feels forced or temporary, it feels like long-term and permanent change.

Committed to acting responsibly

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

We have all seen the climate crisis intensify over the last year and momentum is building within industry, governments, and from our customers for action. Reducing our environmental footprint is a priority and we are dedicating more effort to this important area.

Our Approach

Establish a plan

Engage our people

Actions underway

Future steps

Establish a plan
As an equipment manufacturer with a worldwide reach, we cannot avoid that our very existence contributes to factors affecting climate change. This is reflected in the results of our ESG Materiality Assessment, highlighting that the climate crisis will continue growing in importance.

A rapid and urgent response is needed across all sectors of society, and we appreciate the part we must play in limiting global warming. As a global leader in the audio industry, environmental sustainability is a major opportunity for the Focusrite Group 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.

What has become clear with the increasingly frequent extreme weather events is the need for climate adaption alongside decarbonisation. Our approach takes this into consideration, reviewing the science and data to thoroughly assess problems upfront, taking the decisions to move forward with initiatives that have the greatest potential to reduce our impact for the long term, and ensuring we can continue doing business in the future.

Engage our people
Success will only happen if everyone is involved, so environmental updates are regularly shared internally to all employees. These three examples stand out for their high levels of engagement over the last year:

- To coincide with Earth Day, we partnered with charity Julie's Bicycle to present four remote webinars for employees on the topics of Transport, Food, Biodiversity and The Road to Net Zero.

> Focusrite has a fantastic opportunity to be a leader in this field, and it's great to be involved in defining our future. My goal is to embed environmental thinking into everyday decision-making, empowering all employees around the Group to take part in our collective approach to the climate crisis.

Andy Land
Head of Sustainability

- Charity and fundraising have always been a celebrated part of the culture here, so we now offset any associated environmental impact. The fundraiser gets to choose how they would like to capture carbon, with an increased ratio offset for low environmental impact activities and when more employees donate to the total money raised.
- As a technology company our link to the biodiversity crisis can be difficult to see. To raise awareness of this we invited employees to take part in growing a wildflower meadow at home, with 148 participants across the Group signing up.

Actions underway

Delaying a response to climate change only increases the ultimate cost both environmentally and financially, so we are putting in place measures to change how we operate – so that we start our response early.

Appointing full-time resource

In April we created our first full-time role, Head of Sustainability, and appointed Andy Land to this position. Andy has been with the Company for a decade, bringing with him years of operational experience and a genuine interest in the field.

With this role, the Group is shifting from reactively responding to mandatory requirements only, to proactively defining how we will tackle this issue and ensuring that 'business as usual' is also good for the environment.

Our facilities

The buildings and vehicles we operate are a small minority of our overall footprint, but account for our entire scope 1 and 2 greenhouse gas emissions. To demonstrate best practice, we have been switching our energy to renewable sources as contracts end. As we look to the future, we are embedding sustainability into all building renovations to maximise energy saving and renewable energy generation, so that we reduce our overall impact.

Our operations

Logistics has faced many global challenges over the last year that have been beyond our control, and we have had to rely on air freight more than previous years. To address this, we have implemented a new Group-wide policy to offset all greenhouse gas emissions associated with air freight. Our first offset is an equal partnership with DB Schenker, offsetting 660,000kg CO_2e through afforestation, habitat protection and clean water projects.

However, we recognise that offsets are not a long-term solution for decarbonisation and are continuing to prioritise ocean freight both for strong environmental reasons, and to reduce operating costs.

Our products

Our product portfolio spans a range of different price points and physical sizes, so any action taken must be scalable, produce measurable results, and target long-term success. As up to 90% of a product's emissions are locked in during design, our engineers have one of the biggest roles to play in our response to the climate crisis.

Understanding the footprint of our products has been a priority over the last year, and we now have a high-level view of every Focusrite, Novation and Focusrite Pro product's carbon footprint, with work starting on achieving the same for ADAM Audio, Martin Audio and Sequential.

With this work we can quickly complete a brief lifecycle assessment for new products as part of everyday business and using existing data we can start to model the impact of products still being designed. Allowing us to predict our hypothetical emissions years in advance, this bespoke process makes the connection between taking detailed engineering decisions, and our high-level approach to achieving net zero emissions.

Future steps

Requirements for companies to report their environmental impact are becoming stricter, and we expect this trend to continue.

To help us to deliver long-term success at a corporate level, we are working with Ricardo plc to benefit from their experience and engineering knowledge in the field of sustainability. The ESG Materiality Assessment was our first step working with them to identify our baseline.

Our future steps with the environmental side of ESG are evolving, centred around the four main pillars of TCFD (Task Force on Climate-related Financial Disclosures) that will be mandatory from FY23.

Pillar	Governance	Strategy	Risk management	Metrics and targets
Summary	Ensuring we have oversight and management of climate-related risks and opportunities.	Understanding the impacts to us from climate change and planning accordingly for a range of future climate scenarios.	Setting in place methodology for identifying climate risks and mitigating accordingly.	Disclosure of our targets, climate risks, opportunities, and full Scope 1, 2 and 3 greenhouse gas emissions.
Our progress	In FY21 we dedicated full-time resource with the appointment of our first Head of Sustainability, operating at Group level with a reporting line direct to the Board. The senior management and Board receive regular updates on development and our approach to compliance within each pillar.	In FY22 we will undertake our first Climate Materiality Assessment and scenario planning exercise. This will broaden our knowledge of climate-related risks and opportunities, and the thorough assessment of the materiality of the risks and opportunities identified. The resilience of the Group will be tested against future climate change scenarios of 2°C and 4°C.	The Group's risk management processes are set out in detail on pages 32 to 36. These processes are subject to review by the Board. At present, climate-related risks are not deemed to have a short to medium-term material impact on the Group; however, climate change has been recognised as an emerging risk and will be monitored closely and revised following the Climate Materiality Assessment.	Our metrics and targets will be defined by the outcome of the Climate Materiality Assessment, allowing us measure progress against our risks accordingly. We remain committed to reducing our Scope 1, 2 and 3 GHG emissions in line with the UK Climate Change Act and will be looking at setting interim targets based on appropriate science to support our overall net zero ambition.

Implementing TCFD and having full carbon accounting in place will set us up with a solid environmental baseline for the future and we will also assess other frameworks such as the Carbon Disclosure Project, Sustainable Accounting Standards Board, and Global Reporting Initiatives to decide which path is most appropriate for the Group. As we are committed to aligning with the Paris Climate Agreement, which details limiting global temperature rises to less than 2 degrees, we view science-based targets as an inevitable step on our roadmap for decarbonisation.

April 2021:
Sustainability role filled

July 2021:
ESG materiality review

October 2021:
TCFD initial work
- Workshops and gap analysis
- Climate Materiality Assessment

Early 2022:
Scope 3 emissions
- Peer review of our Lifecycle Assessment Method
- Mapping our Scope 3 emissions

Late 2022:
First TCFD reporting
- Climate scenario planning
- Verification of full Scope 1, 2 and 3 GHG emissions

2023 and beyond:
- Alignment with global sustainability reporting standards

Streamlined Energy and Carbon Reporting ('SECR')

Under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon) Regulations 2018, we are mandated to disclose our UK energy use and associated greenhouse gas ('GHG') emissions.

To ensure a high level of transparency is achieved, we have implemented robust and recognised reporting methods, working with sustainability consultancy McGrady Clarke to assist with the calculations for our SECR requirements. The reporting methodology involves usage of the 2021 Defra (Department for Environment, Food and Rural Affairs) emissions factors to calculate and assess our UK operational emissions, and the most recent IEA (International Environment Agency) conversion factors have been used to assess our global operational emissions.

The SECR reporting period covers our business across all brands from 1 September 2020 to 31 August 2021 and the calculations are for the following scopes:

Greenhouse gas emissions scope	Categories included within SECR reporting
Scope 1: Direct Emissions	Natural Gas, Refrigerant Leakage and Company Owned Vehicles
Scope 2: Indirect Emissions from Energy Purchased	Purchased Electricity Usage
Scope 3: Other Indirect Emissions[1]	Grey Fleet Employee Vehicles

1 Not all Scope 3 GHG emissions categories are included; we will be addressing this as part of TCFD compliance.

Calculation methodology

McGrady Clarke has assessed Focusrite plc's emissions in accordance with the 'GHG Protocol Corporate Accounting and Reporting Standard' and in line with Defra's 'Environmental reporting guidelines: including Streamlined Energy and Carbon Reporting Requirements'. The latest emission conversion factors developed by Defra and the IEA were used to quantify the emissions associated with Focusrite plc's UK and global operations for the specified reporting period.

Reported emissions from Sequential were calculated based upon the length of ownership by Focusrite plc following acquisition in January 2020 and associated emissions are for the period from 28 April 2021 to 31 August 2021. We have used the operational control approach to reporting boundaries.

Scope 1&2 GHG emissions:

363.6

Tonnes CO_2e

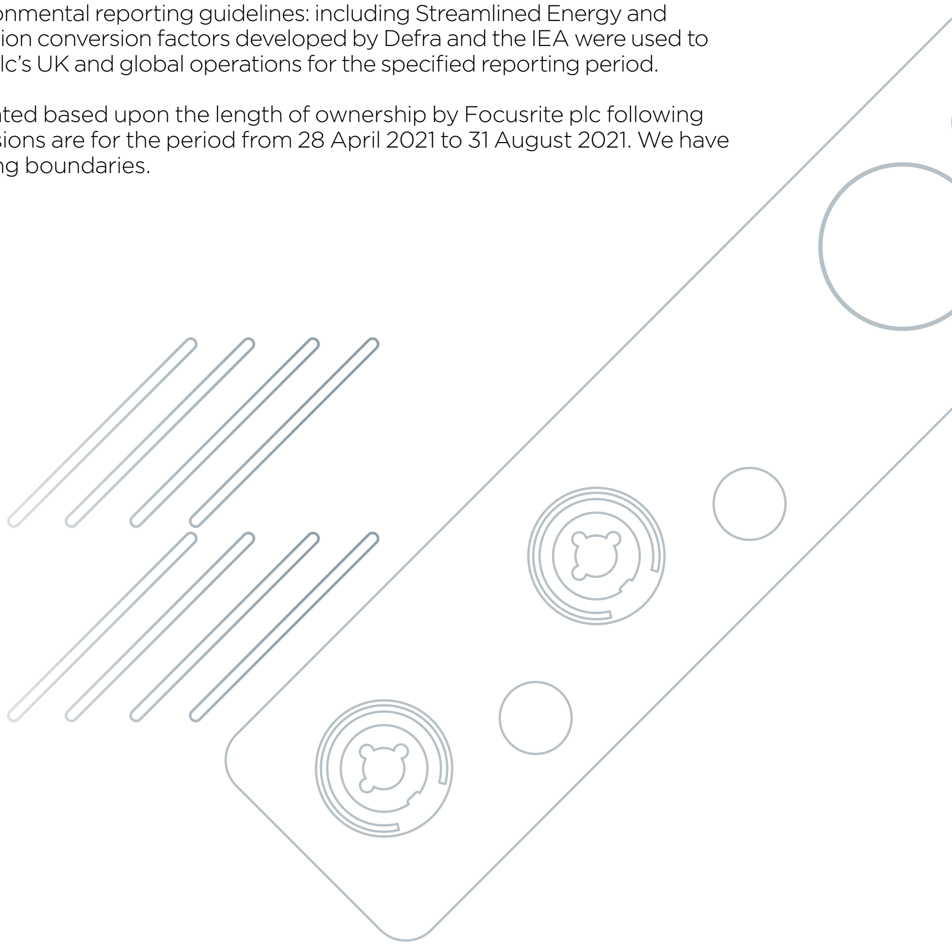
FY20: 359.0

Tonnes CO_2e per £M turnover:

2.1

Tonnes CO_2e

FY20: 2.9



Energy efficiency measures

Due to the COVID-19 pandemic, our facilities have remained partially occupied during the reporting period, with most of our employees working from home, and we are currently reviewing options for new premises as our headcount has increased significantly within the Group.

We have recently agreed contracts for UK sites with Ecotricity to provide 100% renewable energy guarantees of origin ('REGO') backed renewable electricity and are also exploring options for renewable energy in the other countries where we operate. We are also actively reviewing a range of energy efficiency measures, including implementations of a building management system, PV solar panels and HVAC improvements alongside general building fabric improvements.

The table below summarises our carbon emissions, it shows an overall increase in our scope 1 and 2 emissions from 359.0 tonnes in FY20 to 363.6 tonnes in FY21. Given our increase in revenue an intensity measure of tonnes per CO_2e of £m of turnover has reduced from 2.9 in FY20 to 2.1 in FY21. This is an area of focus with initiatives across both products and facilities, and was helped by the non-repeat of an issue with fugitive emissions from refrigeration leakages in FY20, and also the lower usage in our offices this year due to the lockdowns.

Reporting period	1 September 2019 – 31 August 2020			1 September 2020 – 31 August 2021		
Element	UK and Offshore	Global (excluding UK and Offshore)	Total (Focusrite plc)	UK and Offshore	Global (excluding UK and Offshore)	Total (Focusrite plc)
Emissions from combustion of gas (Scope 1) – tCO_2e	114.8	–	**114.8**	184.1	–	**184.1**
Emissions from combustion of fuel for transport purposes (Scope 1) – tCO_2e	5.3	11.8	**17.1**	6.4	18.2	**24.6**
Fugitive emissions from refrigerant leakages (Scope 1) – tCO_2e	77.9	–	**77.9**	–	–	**-**
Total Scope 1 emissions Emissions from activities for which the company own or control, including combustion of fuel and operation of facilities – tCO_2e	198.0	11.82	**209.8**	190.5	18.2	**208.7**
Total Scope 2 emissions Emissions from purchase of electricity, heat, steam and cooling purchased for own use (location based) – tCO_2e	103.3	45.9	**149.2**	105.9	49.0	**154.9**
Total gross Scope 1 and Scope 2 emissions – tCO_2e	**301.3**	**57.7**	**359.0**	**296.4**	**67.2**	**363.6**
Other indirect emissions (Scope 3) Emissions from business travel in rental cars or employee-owned vehicles where the company is responsible for purchasing the fuel – tCO_2e	17.1	–	**17.1**	2.1	0.1	**2.2**
Total gross Scope 1, 2 and 3 emissions – tCO_2e	**318.4**	**57.7**	**376.1**	**298.5**	**67.3**	**365.8**
Carbon offsetting purchased	–	–	**-**	–	–	**-**
Net total emissions – tCO_2e	**318.4**	**57.7**	**376.2**	**298.5**	**67.3**	**365.8**
Intensity metric (gross emissions) Tonnes CO_2e per £m turnover	2.9 (Focusrite plc)			2.1 (Focusrite plc)		
Intensity metric (gross emissions) Tonnes CO_2e per employee	0.9 (Focusrite plc)			0.8 (Focusrite plc)		
Total energy consumption – kWh	**1,143,448**	**203,095**	**1,346,543**	**1,538,021**	**207,126**	**1,745,147**

ESG Our Partners

> 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 rain-water 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 and the USA, 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.

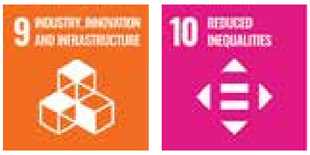
Our distributors are carefully selected based on the service level that they provide and the benefit that they bring to our customers, from ensuring consistent supply through to in-person demonstrations. They are managed locally by our dedicated regional subsidiaries and teams across Europe, Asia Pacific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

ESG Our Passion



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.

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 team 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, LatAm and APAC. As a result, we capture and act on a wider range of customer and cultural feedback in our activities.

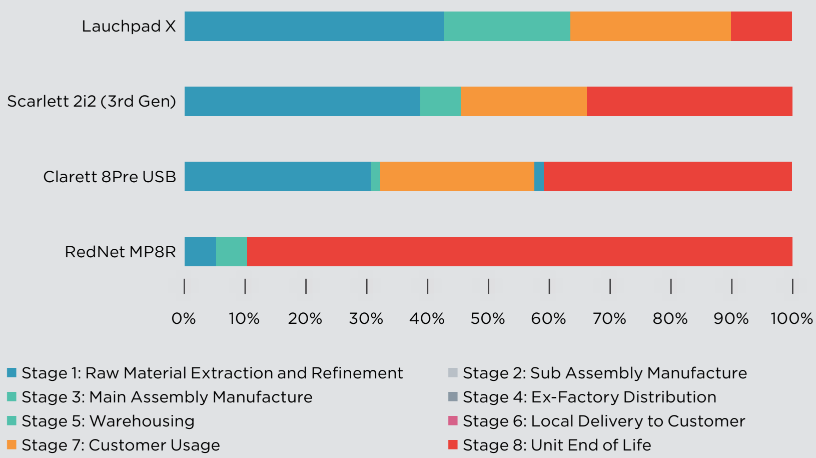
We aim for our brands to truly resonate and connect with music makers from many different communities. In order to do this, we have been actively working on four key initiatives: Pride in Music, Gender Balance in Music, Race and Ethnic Diversity in Music and Accessibility in Music. This group of initiatives 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.

Visualising our environmental footprint

If we reduce our environmental footprint, we provide our customers with a way to reduce theirs too, so measuring where our biggest emissions lie in the lifecycle of our products has been a key focus for us over the last year.

Our internal lifecycle assessment method looks at eight stages to visualise a product's cradle-to-grave journey. This method highlights trends across our product portfolio, with the lower energy, lightweight products having a bigger upstream footprint (Lauchpad X), long-lasting pro products having a much larger downstream footprint (RedNet MP8R), and some products requiring both upstream and downstream to be considered (Clarett 8Pre USB).

This analysis is being done for products across the Group to uncover the key emissions contributors, which is feeding directly into actions taken by our engineering teams.



Tim Carroll
Chief Executive Officer
15 November 2021

Sally McKone
Chief Financial Officer
15 November 2021

Section 172 Statement

The Board of Directors confirm that during the year under review it has 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) 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 response to COVID-19 and the component supply issues. This year the impact of the purchase of Sequential and the planned merger of our US operations on our product roadmap and customer service levels were supported by the Board as steps towards us delivering against our overall strategic goals. Please see the case study overleaf by way of an example of the considerations the Board gives when making a decision to which section 172(1) of the Companies Act 2006 applies.

B – The interests of our employees
See People section on pages 41–45 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 51 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 46–50, People section on pages 41–45 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 page 60. During the year the Board recognised the increased importance of ESG considerations as part of our business conduct, with quarterly updates on this area now being reviewed by the Board.

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, for example disclosing confidential or inside information selectively, that would provide any shareholder with an unfair advantage or position compared to the shareholders as a whole.

Our stakeholders and why they are important	How we engage
People Our people are at the heart of our success, 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 • Regular engagement surveys – including input into COVID 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.	• Work with Ricardo plc to understand which are the key areas for us to improve • 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 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

S172 Case Study

The Group considers all opportunities to increase our footprint and add strategic value to our brands. When reviewing the opportunity to acquire the Sequential business in the US, the Board assessment of the foreign acquisition included strategic fit, projected return, financial and reputational risks. The following factors were considered:

- Alignment with strategic objectives and business plan.
- The Company's ability to execute the transaction, manage the integration and risks.
- Assessment of the location and skills of the workforce together with reviews and challenge of the financial model and affordability, contingency levels and testing of assumptions to assess the overall financial risk and benefits of the transaction.

The board accepted the business and financial analysis and agreed and supported with a unanimous decision.

The approach which the Board used to exercise its responsibilities and deal with uncertainty was as follows:

- Additional time was allocated and the decision was debated over various Board meetings.
- Importance was attached to ensuring everyone clearly understood why they made the decision. Effort was made to provide all the facts they needed and to gather any additional information to inform Board members on their areas of uncertainty. The aim was to keep clarifying and assessing the facts until everyone had the information they needed to make a decision.
- An inclusive/team approach sought to gather a broader view and obtain support from the Board and senior management. This included presentations from product and sales team leaders on the likely customer reaction to the acquisition.

Acquisition of Sequ

Analysis of issues with reference to Section 172

A – The likely consequences of any decision in the long term
The Board considered the fit with our existing US businesses, and our existing product range, and agreed that the acquisition would strengthen our position as premium brand leaders in the industry.

B – The interests of employees
A clear communication plan both to our existing employees and those of Sequential was part of the acquisition plan, as was ensuring an equitable approach to employee benefits across the expanded Group.

C – The need to foster the company's business relationships with suppliers, customers and others
Understanding supply chains and compatibility (or otherwise) with the Group's standards and statutory requirements was an element of our due diligence process and during this phase it was identified that the Group would be able to bring its best practices with contract manufacturers to the newly acquired company.

D – The impact of the company's operations on the community and the environment
The alignment of the values and culture of Sequential with the Group enabled us to develop a shared vision of the post-acquisition plan and a successful integration to date.

E – The desirability of the company maintaining a reputation for high standards of business conduct
The Group spent time with the target's management team to introduce the Group's standards for business conduct and internal control and gathered assurance that they would be reliably achieved and upheld in the business.

Leading by example

Philip Dudderidge

Executive Chairman and Founder

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 acquired the assets of Focusrite Limited in 1989. Phil served as Chief Executive Officer of Focusrite from 1989 until he became Chairman in 2012.

Timothy Carroll

Chief Executive Officer

Tim was appointed Chief Executive Officer of Focusrite in January 2017. Previously, he 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. He is a professional musician by background, having recorded and toured for nearly 20 years as a keyboard player before joining Avid.

Sally McKone

Chief Financial Officer

Sally joined Focusrite plc in March 2021. She trained as a Chartered Accountant with Grant Thornton before moving into industry at Electrocomponents plc and then IMI plc. Sally has specialised in B2B distribution and manufacturing with over 25 years' experience covering both financial reporting and operational roles across Europe, APAC and the USA.

David Bezem

Independent Non-executive Director

David joined the Board of Focusrite in December 2014. He brings with him more than 25 years' experience as an investment banker advising UK public companies across a range of sectors. David qualified as a Chartered Accountant with Arthur Andersen & Co. in 1984. Until October 2018 he was also a Non-executive Director and Chairperson of the Remuneration Committee of Harvey Nash Group plc.

Paul Dean

Independent Non-executive Director

Paul joined the Board of Focusrite in December 2014. He has over 30 years of experience across numerous sectors, including technology. Previously, Paul was Group Finance Director at Ultra Electronics Holdings plc between 2009 and 2013 and Group Finance Director of Foseco plc between 2001 and 2008, including the period of its flotation in 2005. He also held various senior finance roles at Burmah Castrol plc from 1990 to 2000. Currently, Paul is also a Non-executive Director and Chairperson of the Audit Committee at RM plc. Paul is a Chartered Management Accountant.

Naomi Climer CBE

Independent Non-executive Director

Naomi joined the Board of Focusrite in May 2018, bringing with her experience from a career in technology, media, engineering and science. 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 she is also a member of the UK government's Science and Technology Awards Committee.

Francine Godrich

Company Secretary

Francine joined Focusrite in 2018 and is the Group General Counsel and Company Secretary for Focusrite plc. Francine is a solicitor and prior to joining Focusrite was General Counsel for a healthcare company.

Group Executive Committee

David Gibbons
CEO of Sequential

Damian Hawley
Chief Revenue Officer

Sally McKone
Chief Financial Officer

Phil Dudderidge
Executive Chairman and Founder

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With almost 200 years of music industry experience between them, the Focusrite Group's Executive Committee has a lot to call on. It is this team that has driven the strong growth over the last decade. Coupled with our flat hierarchical approach, their leadership signals a high level of business maturity across the entirety of the Group.

Tim Carroll
Chief Executive Officer

Alicia Cousins
Chief People Officer

Dominic Harter
CEO of Martin Audio

Tim Dingley
Chief Operations Officer

Christian Hellinger
CEO of ADAM Audio

Corporate Governance Report

Chairman's introduction

This is Focusrite plc's Corporate Governance Report for the year ended 31 August 2021, delivered on behalf of the Board.

As Chairman, I am responsible for ensuring that the Board operates effectively and upholds high standards of corporate governance. This has never been more important than during the COVID-19 pandemic. At the start of the financial year we had just come out of lockdown and were working hard to understand the impact the pandemic would have on our business operations, employees, customers and the audio industry.

I believe the company has displayed exemplary fiscal discipline during these challenging times as well as delivering outstanding performance throughout the financial year.

Corporate Governance Statement

The statement below, together with the rest of this Corporate Governance Report, provides information as to how the Company has applied the principles of the QCA's Corporate Governance Code (the 'Code') to the financial year ended 31 August 2021 or provides a well-reasoned explanation where we do not. Our compliance statement, required for AIM companies, can be found on our corporate website. The Code is published by the Quoted Companies Alliance and is available at https://www.theqca.com.

COVID-19 impact

The management team's focus has been on preserving the health and safety of our employees and was particularly important this year with the added challenges of COVID-19. We have taken action to ensure our offices have been COVID-19 secure and therefore able to remain open for those of our people who needed to work from an office. For further details see the People section on page 41.

The parts of the Group who were adversely affected by the COVID-19 pandemic took a number of actions to preserve cash and we have been pleased that the quality and resilience of the business has been recognised through the strong performance of the share price towards the end of the financial year.

Commitment to continuing governance

Understandably, environmental, social and governance ('ESG') considerations are increasingly becoming a key area of focus for those who want to work for, purchase from or invest in us. As a responsible business we are mindful of the impact our operations have on the environment and the communities we touch. We have continued to increase our ESG disclosures in our Annual Report and remain committed to applying robust governance to safeguard the long-term interests of the Group and our stakeholders.

Board structure

Biographies of individual Directors are provided on page 56 and their Board and Committee responsibilities are outlined below and in the various Committees' reports.

We have improved the gender representation on our Board, and indeed across the Group. Whilst we will always be able to improve our diversity mix we will continue to appoint on merit, seeking to appoint the candidate with the most appropriate skills and experience.

During the year, the Board appointed Sally McKone as our Chief Financial Officer to replace Jeremy Wilson who served as Chief Financial Officer from 2014. Sally joined in March 2021 and has already made a strong contribution to the Group. I would like to thank Jeremy for his leadership and stewardship of the finance team, as well as his contribution to the achievement of our continued growth, profitability and cash generation.

Board leadership

The Board has extensive operational experience and many years of detailed knowledge of the electronics and professional audio industry, both in the UK and overseas. The Board also benefits from significant financial, transactional and public company expertise which serves it well in its principal role of providing effective leadership of the Group so that it generates and preserves long-term value. It is responsible for:

- the long-term success of the Group, setting and executing the business strategy and overseeing delivery in a way that enables sustainable long-term growth;
- providing effective leadership whilst delegating more detailed matters to its Committees and officers;
- setting and monitoring the Group's risk appetite and the system of risk management and internal control and for monitoring implementation of its policies; and
- approving the annual three-year plan and Group budgets and subsequent regular review of performance against budget including explanation of significant variances. Forecasts are revised quarterly and reviewed against performance monthly.

In particular, during the financial year ended 31 August 2021 the Board:

- assessed a number of potential acquisition opportunities which would enhance the Group's offering to customers. When assessing these opportunities, the Board had regard to strict criteria and a number of these opportunities moved forward to advanced discussions. The Group executed the acquisition of Sequential LLC in April 2021;
- reviewed and discussed the financial stability of the Group through a number of potential stress test scenarios that could have been brought about by the COVID-19 pandemic;
- received briefings on the Group's ESG activities with a particular focus on the environment. ESG will be a regular item on the Board calendar; and
- reassessed its principal risks and uncertainties. Please see page 32 for details of the Group's principal risks and uncertainties.

As a Group our purpose is to become the leading audio technology company by creating a great place to work and remove barriers to creativity with a fully connected product and brand eco-system but in a responsible and ethical way that sees us doing the right thing by our employees, customers, suppliers and wider stakeholders. For further details see page 53.

Culture

Keeping the Group's culture is particularly important as the Group grows. Openness and transparency, with a strong focus on high expectations and standards, honesty and integrity continue to be our focus. As the Group ultimately operates within the consumer sector, the safety and security of the Company's products and end users' data remains our priority.

Board gender

Male – 4
Female – 2

Board Executive/ Non-executive membership

Chairman (Executive) – 1
Executive Directors – 2
Non-executive Directors – 3

Tenure (Board)

0–3 years – 2
4–6 years – 1
7+ years – 3

Overview of governance structures

The structure of the Board is designed to ensure that it focuses on strategy together with the monitoring of performance, control and risk. The Board considers that the Group's governance structure, as outlined below, facilitates the operation of an open and straightforward culture, and is not burdened by complex hierarchies and over-delegation of responsibilities.

Shareholders

Board

Responsible for providing effective leadership by setting business strategy and overseeing delivery in a way that delivers long-term growth for the benefit of the Group's shareholders.

Board Committees

The terms of reference for each Committee are documented and agreed by the Board. They are reviewed and updated and are available on the corporate website.

Audit Committee

- Reviews and monitors the integrity of the Group's financial statements.
- Reviews and monitors the adequacy and effectiveness of the risk management framework and the systems of internal controls (including whistleblowing procedures).
- Reviews and monitors the effectiveness and independence of the external and internal auditors.

Remuneration Committee

- Responsibility for setting the Remuneration Policy for all Executive Directors, including pension rights and any compensation payments.
- Monitors the level and structure of remuneration for senior management.
- Reviews the ongoing appropriateness and relevance of the Remuneration Policy when setting remuneration.

Nomination Committee

- Keeps under review the composition, size, structure and diversity of the Board and its Committees.
- Evaluates the balance of skills, experience and diversity of the Board.
- Provides succession planning for the Board and senior management.
- Leads the process for new Board appointments.

Chief Executive Officer

Responsible for the day-to-day running of the Group's business and performance, and for the development and implementation of business strategy.

General Executive/operational management

The Chief Executive has delegated authority for the day-to-day management of the business to operational management comprising other Executive Directors and senior management who have responsibility for their respective areas. This includes important weekly trading and capital expenditure meetings which consider the performance and development of the various brands through their different distribution channels. This and other meetings also focus on risk management of business areas in respect of the Group's business, including product, sales, customer experience, property, warehousing, systems and people.

Board Committees
The Board has appointed Committees to carry out certain aspects of its duties. Each is chaired by a Non-executive Director and has written terms of reference which are available on the Company's corporate website. The Chair of each Committee reports regularly to the Board as to how that Committee has discharged its responsibilities.

All of the independent Non-executive Directors are members of the Nomination, Audit and Remuneration Committees. Not only does this provides an opportunity for the Non-executive Directors to deepen their understanding of the Group's business, control and risk environment and provide them with valuable information and insight, it also contributes to the value they add individually and collectively to the effective and efficient running of the Board and its Committees.

Board meetings
The table below shows the attendance at Board and Committee meetings during the year to 31 August 2021.

The amount of time that Non-executive Directors are expected to commit to discharge their duties is agreed on an individual basis at the time of appointment and reviewed thereafter as necessary. The time commitment agreed takes into account whether the appointee is the Chair or a member of a Board Committee(s) and whether the Director has any external executive responsibilities. On average this equates to approximately two days per month for a Non-executive Director. The Board is satisfied that each of the Directors is able to allocate sufficient time to the Company to discharge their responsibilities effectively. In the event a Director is unable to attend a meeting, their comments to the business of the meeting are discussed with the Chairman ahead of the meeting and then relayed to the Board. Ad hoc meetings of the Board are held at short notice as appropriate.

A topical Board calendar is prepared on an annual basis with members of the extended management team regularly invited to attend to present an update on their areas of the business.

Director	Role	Board	Audit	Nomination	Remuneration
Number of meetings held in year:		14	3	1	4
Phil Dudderidge	Chairman	13/14	3/3	1/1	4/4
Tim Carroll	Chief Executive Officer	14/14	3/3	n/a	n/a
Jeremy Wilson	Chief Financial Officer	7/14[1]	1/3[1]	n/a	n/a
Sally McKone	Chief Financial Officer	7/14[2]	2/3[2]	n/a	n/a
David Bezem	Non-executive Director	14/14	3/3	1/1	4/4
Naomi Climer	Non-executive Director	13/14	3/3	1/1	4/4
Paul Dean	Non-executive Director	13/14	3/3	1/1	4/4

1 Left 19/03/2021
2 Joined 01/03/2021

The Directors have access to the advice and services of the Company Secretary who is responsible for ensuring that the Board and its Committees' procedures and applicable rules and regulations are met. The Directors all have access to the Group's key advisers. If required in the performance of their duties, Directors may take independent professional advice at the Company's expense. Appropriate Directors' and Officers' insurance cover is in place in respect of legal action against the Directors. The Company has adopted and maintained a share dealing code for Directors and employees in accordance with the Market Abuse Regulations.

Conflicts of interest
Directors have a legal duty to avoid conflicts of interest. Prior to appointment, conflicts of interest are disclosed and assessed to ensure that there are no matters which would prevent that person from taking on the appointment.

Should a potential conflict arise, in accordance with the Company's Articles of Association, the Board has a formal system in place for Directors to declare situational conflicts to be considered for authorisation by those Directors who have no interest in the matter being considered. In deciding whether or not to authorise a situational conflict, the non-conflicted Directors consider the situation in conjunction with their general duties under the Companies Act 2006. They may impose limits or conditions when giving an authorisation or subsequently if considered appropriate. Any situational conflicts considered by the Board and any authorisations given are recorded in the minutes of the relevant Board meeting and the Company's statutory register of conflicts.

Corporate Governance Report
continued

Division of responsibilities

Independence of Non-executive Directors

All Non-executive Directors were considered by the Board to be independent as to character and judgement and to be free of relationships and other circumstances that might impact their independence at the time of their appointments. Appointments of Non-executive Directors are for specific terms (initially for three years) and are subject to statutory provisions relating to the removal of a Director.

The Board delegates certain responsibilities to the three principal Board Committees: the Audit Committee, the Remuneration Committee and the Nomination Committee. The chairperson of each Committee reports to the Board in relation to the Committee's activities and recommendations. Members of the Board who are not members of individual Committees may be invited to attend meetings of those Committees at the discretion of the respective Committee's chairpersons but are not permitted to vote in respect of Committee business.

The Audit Committee is responsible for overseeing the Group's external financial reporting and associated announcements, considering risk management, internal controls procedures and the work of the Group's internal and external auditors. The Committee met three times during the year and comprises all of the Non-executive Directors. Full details of the work of the Committee are set out in the Audit Committee Report on pages 65–67.

The Remuneration Committee is responsible for establishing a formal and transparent procedure for setting executive remuneration policy and for setting the remuneration of individual Directors. Through the Remuneration Committee, the Chairman and Non-executive Directors meet without the Executive Directors present. The Committee met four times during the year and comprises all the Non-executive Directors. Full details of the work of the Committee are set out in the Directors' Remuneration Report on pages 68–73.

The Nomination Committee is responsible for leading the Board appointments process and for considering the size, structure and composition of the Board. The Committee met once in the year.

The Board remains satisfied that the size of the Board and its Committees and the balance of Executive and Non-executive members is such that no individual or small group of individuals can unduly influence its decisions. As at the date of this report, the Board comprised the Chairman, three independent Non-executive Directors and two Executive Directors who collectively possess an appropriate balance of expertise appropriate to lead the Group's business. The Non-executive Directors have a broad range of UK and international business knowledge and experience, as well as industry, finance, corporate transactions and risk management experience. Directors are subject to election or re-election by shareholders at each AGM.

The roles of the Chairman and the Chief Executive Officer are separate, which provides a clear division of responsibilities between the running of the Board and the Executive responsibility of running the business.

Accountability

There are formal and transparent arrangements for considering how corporate reporting, risk management and internal control principles are applied. The Group has a range of governance-related policies and procedures in place, including an anti-bribery and corruption policy and online training programme, a whistleblowing policy, employee assistance programmes, staff welfare policies and procedures, and health, safety and environmental policies.

The Board is accountable to its investors and seeks to balance their interests with those of a broader range of stakeholders, which includes employees, suppliers, customers, regulators and the community. The Board has ultimate responsibility for the Group's internal control arrangements and for reviewing their effectiveness. Such arrangements guide and direct the activities of the Group to support delivery of its strategic, financial, operational and other objectives and safeguard shareholders' investment and the Group's assets. The Group has implemented a system of internal controls to reduce, where it cannot eliminate, the likelihood and/or impact of poor judgement in decision-making, human error, deliberate circumvention of control processes by employees and others, management override of controls and the occurrence of unforeseeable circumstances. The Board sets policies and seeks and obtains on an ongoing basis, both directly and through the Audit Committee, assurance regarding the existence and operation of appropriate internal controls to mitigate key strategic, financial, operational, compliance and reputational risks. The Board and Audit Committee consider any significant control matters raised in reports from management and the Company's external auditors and they monitor the progress of remedial actions.

Risk management

The approach to risk management, risk appetite and the principal risks themselves are set out on pages 32–36.

Remuneration

Remuneration is addressed separately in the report of the Remuneration Committee and the Directors' Remuneration Report on pages 68–73.

Annual General Meeting

The AGM will be held and live broadcast from the offices of Stephenson Harwood LLP at 1 Finsbury Circus, London EC2M 7SH on Friday 17 December 2021 at 12 noon. The AGM provides the opportunity for shareholders to ask any questions that they may have in respect of the Group's activities. At the AGM, separate resolutions will be proposed for each substantially different issue. Proxy votes are disclosed by means of an announcement on the London Stock Exchange and via the Group's website. All Directors will be available to answer questions at the AGM. The Annual Report, including financial statements and related information, is made available in advance of the meeting on the Group's website or posted to shareholders if they have requested a paper copy.

With continued uncertainty around the status of the coronavirus pandemic and prevailing restrictions, the Board strongly recommends that shareholders do not attend the AGM in person and instead are encouraged to join remotely via the webcast provision which is detailed in the Notice of Meeting. If required, further information in respect of in-person attendance, including modifications necessary to ensure social distancing measures are adhered to, will be published closer to the date of the AGM on the Company's website.

Audit Committee Report

Paul Dean
Audit Committee Chairperson

Dear shareholder,
On behalf of the Board, I am pleased to present the Audit Committee Report for the year ended 31 August 2021.

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: Paul Dean (as Chair), David Bezem and Naomi Climer. Phil Dudderidge, Tim Carroll and Sally McKone may attend Committee meetings by invitation if required. The Committee met three 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 management accountant and I have served as CFO in a number of listed companies. I am currently Chair of the Audit Committee of RM plc and previously Porvair plc, Polypipe Group plc and Wincanton 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;
- 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 performance. KPMG LLP has complied with the partner rotation requirement set out in Ethical Standards for Auditors. Michael Froom became the audit partner in 2018 and this year will be the last year that he acts as audit partner, before rotating out in line with audit guidelines. 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.

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

Revenue recognition
Stock is sold and revenue recognised when we have satisfied our performance obligations to distributors and dealers. The key judgement required is in the USA where the Group has a single distributor, American Music & Sound ('AMS'), which is a division of JAM Industries Limited, who are themselves owned by DCC plc.

The Group's subsidiary, Focusrite Group US ('FGUS') works closely with AMS to market the Group's products and maintain relationships with AMS' customers.

However, in the judgement of the Directors, the Group does not have continuing managerial involvement over the goods sold to the degree usually associated with ownership, thereby signalling that AMS is a principal, rather than an agent of the Group. The reasons for this view include the facts that AMS has responsibility for providing goods to the customer, responsibility for the collection of payments from their customers and has no right of return to the Group. This judgement is consistent with prior periods.

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 Committee deemed capitalisation and recoverability of internally-generated intangible assets to be not material in FY21.

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 Sequential in April 2021, 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. Smith & Williamson 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 than the carrying value, an impairment is recognised.

For all companies, the recoverable amount exceeded the carrying value of the assets. Therefore, no impairment was indicated for the intangible assets on the balance sheet. In FY20 an impairment was made to the goodwill relating to the acquisition of Martin Audio following an assessment of the forecast cash flows given the uncertainty in the live sound market. A reassessment of this calculation at this year end supports the current carrying value and no further impairment is required. The Committee considers the impairment of major intangible assets to be immaterial in FY21.

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 and Crowe Whitehill LLP have been appointed in this capacity.

An audit programme was agreed for the year, comprising a review of both recent acquisitions, ADAM Audio and Martin Audio and also a review of system access controls. This programme was carried out despite the challenges of lockdowns and identified a number of control improvements which management are acting upon. Further audits are planned with Crowe Whitehill LLP in the coming year, again focusing on new acquisitions and risk focus areas.

Risk management and internal controls

As described on page 64 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 the Committee is satisfied that the internal control systems in place are currently operating effectively.

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 internal controls in place for detecting fraud and instances of fraud are reported to the Board, and systems and controls are in place 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 regard to bribery. During the year, no incidents were reported to the Committee.

Paul Dean
Audit Committee Chairperson

15 November 2021

Directors' Remuneration Report

David Bezem

Remuneration Committee Chairperson

Introduction

The 2021 financial year was a very strong one, particularly in the first half. Demand remained high and this resulted in significant growth compared with the previous financial year, which was itself also strong. This growth was achieved despite significant supply chain challenges such as component shortages and elevated transport costs, which are discussed in more detail in the CEO's report. Revenue, profits and cash generation in the year all exceeded expectations, which were set mindful of the global uncertainties and challenges presented by the continuing COVID-19 pandemic. This performance is reflected in the 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.

Base salaries for the Executive Directors in the 2022 financial year are again being increased in line with the cost of living, consistent with the majority of employees across the Group. However, a detailed review of the Executive Directors' base salaries and other aspects of their remuneration will be undertaken in the course of the 2022 financial year. This will cover both quantum and structure and involve taking external advice. The last time such a review was carried out was in the 2019 financial year and, as a rule, the Remuneration Committee considers it appropriate to do this triennially in order to take account of the evolution of the Group as well as changing market conditions. This will help to inform remuneration decisions for subsequent years.

The Board continues to support the principle of transparency and has therefore again prepared this remuneration report in order to provide useful information to shareholders on its executive remuneration arrangements for the 2021 financial year and, as appropriate, the following year. We have used Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the 'Regulations'), and those recommended by the Quoted Companies Alliance, as guidance for the selected disclosures presented herein, and which we consider to be relevant, helpful and appropriate.

Remuneration Committee

The members of the Remuneration Committee are David Bezem (Chairperson), Paul Dean and Naomi Climer, 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 63.

The Executive 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. 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 Non-executive Directors 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. Neither the Committee members nor Phil Dudderidge participate in any bonus, share awards or pension arrangements.

Remuneration policy

The Committee's principal aims in setting remuneration policy are to: attract, retain and motivate high-calibre senior management; focus them on the delivery of the Group's strategic and business objectives, as set out in this Annual Report; promote a strong and sustainable performance culture; and 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

Base salaries for the Executive Directors are determined taking account of individual performance, scope of responsibility and relative pay levels within the Group. The Executives' base salaries for the 2021 financial year are set out in the table on page 73. The base salaries of Phil Dudderidge, Tim Carroll and Sally McKone have all been increased by 2% for the 2022 financial year, consistent with the inflationary increase awarded to the majority of employees across the Group.

Performance based annual bonus

The Executive Directors, other than Phil Dudderidge, were awarded discretionary performance based annual bonuses for the financial year ended 31 August 2021. Phil Dudderidge does not receive an annual bonus. Sally McKone joined the Group as Chief Financial Officer on 1 March 2021. She replaced Jeremy Wilson who, as noted in last year's Directors' Remuneration Report ('DRR'), remained in post until Sally joined, in order to ensure a smooth transition. Accordingly, both Sally McKone and Jeremy Wilson received an annual bonus pro-rated to the proportion of the 2021 financial year for which they were employed by the Company.

The annual bonus for the 2021 financial year was based on three performance criteria which were unchanged from the 2020 financial year: adjusted EBITDA, which represented 70% of the maximum bonus; adjusted free cash flow as a proportion of revenue, which represented 20% of the maximum bonus; and their individual contributions to developing strategic opportunities for the Group, which represented 10% of the maximum bonus and which was assessed qualitatively by the Remuneration Committee. The three performance criteria operated independently of one another.

As in previous years, the maximum cash bonus for the 2021 financial year for Tim Carroll, Sally McKone and Jeremy Wilson was 100% of annual base salary (pro-rated as noted above). In addition, Tim Carroll and Sally McKone 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 base salary. To the extent they elected to do so, the Company undertook to make a matching award of shares (the 'matching shares'). This is 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. Again, this arrangement was consistent with 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 2021 financial year, the Remuneration Committee determined that the maximum cash bonus to which they were entitled should be awarded to Tim Carroll, Sally McKone and Jeremy Wilson. The table overleaf shows the upper and lower performance boundaries and the targets for the financial elements of the bonus. No discretionary adjustments were deemed appropriate. With respect to the non-financial strategic element of the bonus, representing a maximum of 10% of the bonus opportunity, the Remuneration Committee also determined that this was met in full. The amounts shown in the table are before taking account of any elections to receive a portion of their bonus in shares.

	Performance criterion	Lower boundary	Target	Upper boundary	Actual
		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]			
Tim Carroll	**EBITDA**	£28.6m	£32.0m	£34.2m	£47.5m[1]
	Cash bonus	£0	£122,094	£203,490	£203,490
	% salary	0%	42%	70%	70%
	Free cash flow % of revenue	3.0%	5.0%	7.5%	18.1%[2]
	Cash bonus	£16,279	£34,884	£58,140	£58,140
	% salary	0%	12%	20%	20%
	Strategic objectives				
	Cash bonus	£0	£17,442	£29,070	£29,070
	% salary	0%	6%	10%	10%
	Total cash bonus	**£16,279**	**£174,420**	**£290,700**	**£290,700[3]**
Jeremy Wilson[4]	**EBITDA**	£28.6m	£32.0m	£34.2m	£47.5m[1]
	Cash bonus	£0	£51,367	£85,611	£85,611
	% salary	0%	42%	70%	70%
	Free cash flow % of revenue	3.0%	5.0%	7.5%	18.1%[2]
	Cash bonus	£6,849	£14,676	£24,460	£24,460
	% salary	0%	12%	20%	20%
	Strategic objectives				
	Cash bonus	£0	£7,338	£12,230	£12,230
	% salary	0%	6%	10%	10%
	Total cash bonus	**£6,849**	**£73,381**	**£122,301**	**£122,301[3]**
Sally McKone[4]	**EBITDA**	£28.6m	£32.0m	£34.2m	£47.5m[1]
	Cash bonus	£0	£47,880	£79,800	£79,800
	% salary	0%	42%	70%	70%
	Free cash flow % of revenue	3.0%	5.0%	7.5%	18.1%[2]
	Cash bonus	£6,384	£13,680	£22,800	£22,800
	% salary	0%	12%	20%	20%
	Strategic objectives				
	Cash bonus	£0	£6,840	£11,400	£11,400
	% salary	0%	6%	10%	10%
	Total cash bonus	**£6,384**	**£68,400**	**£114,000**	**£114,000[3]**

1. EBITDA is as per the value published in the accompanying financial statements.
2. The free cash flow as a percentage of revenue excludes the impact of the cash cost associated with the purchase of Sequential, the non-underlying costs paid up to the year end and the movements in the bank loan taken out to acquire Sequential.
3. Tim Carroll and Sally McKone have elected to take an amount equivalent to 25% 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 73. For FY21, Jeremy Wilson's bonus is only payable in cash.
4. The bonuses for Jeremy Wilson and Sally McKone are calculated pro-rata with the length of time employed in the 2021 financial year.

Long-term share incentives

The following table shows details of the awards made to Tim Carroll and Jeremy Wilson, as well as other senior management, under the Focusrite Performance Share Plan ('PSP') which had not vested or lapsed as at 31 August 2021.

PSP awards to Executive Directors and other senior managers

Grant date	21-Nov-18	23-Dec-19	18-Nov-20
Terms:			
Performance period – three years to:	31-Aug-21	31-Aug-22	31-Aug-23
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	51,722	47,263	31,190
Jeremy Wilson[2]	41,318	35,655	N/A
Other senior managers	58,746[3]	57,557[4]	47,169
Vesting (%)	100%[5]	N/A	N/A
Shares vesting:			
Tim Carroll	51,722	N/A	N/A
Jeremy Wilson[2]	Lapsed	Lapsed	N/A
Other senior managers	45,988[5]	N/A	N/A

1. Compound annual growth rate.
2. The options granted to Jeremy Wilson in 2018 and 2019 lapsed when he left the Company.
3. In November 2018, 58,746 options were granted to other senior managers. Since then, one participant has left Focusrite plc and forfeited 12,758 options.
4. In FY20, this was presented at 66,708. However, one participant left Focusrite plc during FY21 and forfeited 9,151 options.
5. Due to vest on 22 November 2021.

Other awards: buyout arrangements for Sally McKone

Upon resigning from her previous employer in the course of its 2020 financial year, Sally forfeited the right to receive an annual performance cash bonus in respect of that year. As she was required to work the full notice period, which lasted beyond the year end of her former employer's financial year, it was agreed that the Company would pay a one-off bonus in cash equal to the amount she would otherwise have received had she not resigned to join Focusrite. This bonus was paid in March 2021 and amounted to £169,800. This is shown in the Directors' emoluments table on page 73.

Outstanding LTIP awards held by Sally in connection with her former role also lapsed as a consequence of her joining Focusrite plc. Had she not resigned, these awards (made under a Performance Share Plan) would have vested in March 2021, 2022 and 2023. Based on historical performance and other publicly available data, an estimate was made of the proportion of these awards which might vest in the future, and hence their value. These were replaced with deferred shares in the Company to the same value, based on the relative share prices of the two companies at the time, and vesting on the same schedule (assuming continued employment with Focusrite). As announced on 18 May 2021, the total number of deferred Focusrite shares Sally was awarded was 13,337, of which 3,176 have vested. This is shown in the dilution table on page 72.

Awards to be made in the 2022 financial year

Following the announcement of results in respect of the 2021 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 2024 financial year. As in previous years, these awards will be worth a maximum of 100% of base salary at the time of grant, vest subject to EPS performance and be subject to malus and clawback provisions. PSP awards will also be made to other senior management. Further details of all awards made in the 2022 financial year will be set out in the DRR in next year's Annual Report.

Long-term incentives for other employees

The Group also operates both Enterprise Management Incentive ('EMI') schemes and unapproved option schemes for the benefit of other employees of the Group. These schemes, which were set up prior to the flotation on AIM, form part of the programme of incentives to promote the successful recruitment, retention and rewarding of all employees and reflect the importance the Company places on wider share ownership. The last of such awards were granted in December 2015.

For this reason, a new scheme was introduced in the 2018 financial year for the benefit of employees other than the CEO, CFO and other senior management who receive PSP awards. This scheme, a Company Share Option Plan ('CSOP'), operates 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. No new CSOP awards were made in the 2021 financial year. Rather, use of the existing PSP was extended more deeply into the Group than in previous years.

Directors' Remuneration Report
continued

Dilution
All of 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' potential net dilution as at 31 August 2021:

Plan	Maximum number of shares relating to award	% of issued share capital
Tim Carroll – PSP	130,175	0.22%
Other senior management – PSP	150,714	0.26%
Sally McKone – deferred shares[1]	10,161	0.02%
Other employee share option plans – EMI and CSOP	741,853[3]	1.26%
Options outstanding at end of period	1,032,903	1.76%
Less: unallocated issued shares held in EBT[2]	(554,712)	(0.95%)
Potential net dilution	478,191	0.82%

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 (and satisfied by shares held in the EBT since IPO), the second tranche of 4,029 shares will vest 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 less the number of shares used by the EBT since then to satisfy options that have vested and been exercised, plus 550,000 shares that were issued to the EBT in the financial year.
3. Of the 1,072,701 shares in last year's financial statements, no further options were issued, 282,651 options were exercised, and 48,197 options have lapsed through employees leaving the Company.

Pension contribution
Tim Carroll and Sally McKone are entitled to a pension contribution made by the Company of 15% of annual base salary. 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 and fees
Paul Dean and David Bezem were appointed Non-executive Directors of the Company for an initial period of three years from the IPO in December 2014. Their appointments were 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 upon expiry.

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.

Following a review by the Board of Focusrite plc of the fees paid to the Non-executive Directors, in which the Non-Executive Directors did not participate, it was resolved to increase the base fee to £45,000 per annum and the additional fee for chairing the Remuneration and Audit Committees to £10,000 per annum for the 2022 financial year. The Board considered this increase to be appropriate in view of the scale and complexity of the Group and the scope of their responsibilities.

Directors’ emoluments table (audited)

Executive Directors		Salary/fees £’000	Other taxable benefits £’000	Annual bonus £’000	Joining bonus £’000	Pension contribution £’000	Total £’000
Tim Carroll[1]	FY20	285	6	342	–	34	667
	FY21	**291**	**3**	**363**	**–**	**38**	**695**
Jeremy Wilson[2]	FY20	215	2	215	–	28	460
	FY21	**122**	**2**	**122**	**–**	**17**	**263**
Sally McKone[3]	FY20	–	–	–	–	–	–
	FY21	**114**	**–**	**143**	**170**	**17**	**444**
Phil Dudderidge	FY20	182	5	–	–	–	187
	FY21	**186**	**5**	**–**	**–**	**–**	**191**
Non-executive Directors							
David Bezem[4]	FY20	41	–	–	–	–	41
	FY21	**42**	**–**	**–**	**–**	**–**	**42**
Paul Dean[4]	FY20	41	–	–	–	–	41
	FY21	**42**	**–**	**–**	**–**	**–**	**42**
Naomi Climer[5]	FY20	36	–	–	–	–	36
	FY21	**37**	**–**	**–**	**–**	**–**	**37**

1 The bonus for Tim Carroll comprises £218,025 paid in cash (FY20: £228,000), £72,675 taken as shares (FY20: £57,000) and £72,675 in the form of matching shares (FY20: £57,000). 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, and Tim Carroll elected to use £nil (FY20: £2,629) of this in respect to the cost of leasing a car.

2 The bonus for Jeremy Wilson comprises £122,301 paid in cash (FY20: £215,000), £nil taken as shares (FY20: £nil) and £nil in the form of matching shares (FY20: £nil). 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. Jeremy Wilson left Focusrite Group on 19 March 2021 and his bonus has been calculated pro-rata for the period before he resigned.

3 The bonus for Sally McKone comprises £85,500 paid in cash, £28,500 taken as shares and £28,500 in the form of matching shares. The joining bonus comprises £169,800 paid in cash in compensation for annual bonus forfeited by leaving former employer. Sally McKone joined Focusrite Group on 1 March 2021 and her bonus has been calculated pro-rata for the period from appointment to the end of FY21.

4 The remuneration for both David Bezem and Paul Dean comprises a basic fee of £36,500 per annum for their roles as Non-executive Directors of the Group and an additional £5,000 per annum for their roles as Chairs of Board Committees.

5 Naomi Climer’s basic fee for her role as a Non-executive Director of the Group was £36,500.

Approval

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

David Bezem
Chairperson of the Remuneration Committee

15 November 2021

Directors' Report
For the year ended 31 August 2021

The Directors present their report and audited financial statements for the year ended 31 August 2021.

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 actions taken to introduce, maintain or develop arrangements aimed at employees, details on how the directors have engaged with employees and had regard to employee interests, our approach to investing in and rewarding the workforce, employee diversity and the employment, training and advancement of disabled persons) (see Our People on page 41);
- likely future developments (see Chief Executive's Statement on page 14);
- risk management (see Principle Risks and Uncertainties on page 32);
- details on how the directors have had regard to the need to foster business relationships with stakeholders (see s172 on page 53); and
- greenhouse gas emissions (see Our Planet on page 46).

AGM Notice
The 2021 Annual General Meeting (AGM) will be held and live broadcast from the offices of Stephenson Harwood LLP at 1 Finsbury Circus, London EC2M 7SH on Friday 17 December 2021 at 12 noon.

The Notice of Annual General Meeting, which includes the business to be transacted at the meeting, is set out on page 64.

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 2021, the Company had 58,661,639 ordinary shares of £0.001 each in issue (31 August 2021: 58,111,639). The Company increased its issued share capital by 550,000 ordinary shares of £0.001 each in December 2020 and these new issued shares were allotted to the Company's employee benefit trust (the 'EBT') which holds shares in the Company to facilitate share-based emolument payments and the Group Share Incentive Plan ('CSOP') and were admitted to trading on AIM on 31 December 2020.

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 13 September 2021, the Company had been notified of the following substantial interests in 3% or more of its ordinary shares:

Significant shareholders as at 13 September 2021	Number of shares	% of issued share capital
Focusrite plc Directors and related parties	20,422,730	33.19
Sanford DeLand Asset Mgt (Manchester)	7,125,000	12.15
abrdn plc	6,323,422	10.78
Charles Stanley (London)	4,227,935	7.21
Canaccord Genuity Wealth Mgt (London)	4,071,941	6.94
Liontrust Asset Mgt (London)	1,997,314	3.40

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 2021 the EBT held 554,712 (2020: 359,483) 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 page 60. The Corporate Governance Report forms part of this Directors' Report and is incorporated into it by cross-reference.

Directors and their interests
In the year ended 31 August 2021, Jeremy Wilson, Chief Financial Officer, who tendered his resignation in 2020, left on 19 March 2021 and Sally McKone joined on 1 March 2021 as Chief Financial Officer.

Details of each Director's contractual arrangements, including notice periods, are included as part of the Directors' Remuneration Report on pages 68-73 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/significant-shareholders.

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 68–73.

The Chairman owns a small property 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 17 December 2021, the Board proposes paying a final dividend of 3.7p per ordinary share (2020: 2.9p) on 31 January 2022 to the shareholders on the register at the close of business on 31 December 2022.

Employees
The Company's strategy is to create 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 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 to the period ending February 2023 ('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

15 November 2021

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 international accounting standards in conformity with the requirements of the Companies Act 2006 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 international accounting standards in conformity with the requirements of the Companies Act 2006;
- for the Parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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.

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 2021 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position and Company Balance sheet, Consolidated and Company Statement of Changes in Equity, Consolidated Cash Flow Statement, 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 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- 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		£1.50m (2020: £0.93m) 4.3% (2020: 4.9%) of group profit before tax
Coverage		94% (2020: 99%) of group profit before tax
Key audit matters		**vs 2020**
Recurring risks	Recoverability of acquired goodwill in Martin Audio CGU	◀▶
Parent company	Recoverability of investment in Martin Audio entities	◀▶
Event driven	Acquisition accounting	

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
Recoverability of acquired goodwill in Martin Audio CGU (£2.3m; 2020: £2.3m) *Refer to page 65 (Audit Committee Report), page 90 (accounting policy) and page 105 (financial disclosures)*	**Forecast based valuation:** The live music industry has been slowly recovering from the impact of government restrictions as a result of the COVID-19 pandemic. The pandemic has had an adverse impact on the trading of Martin Audio as a result of the uncertainty in customer demand. As part of the impairment review, the directors have estimated a recoverable amount of the Martin Audio CGU. The estimated recoverable amount is subjective due to the inherent uncertainty involved in assumptions such as revenue growth (as the sector recovers from the impact of COVID-19 on demand over the coming years), long-term revenue growth, and discount rates used in the discounted cash flows. As such, the remaining goodwill balance and intangible assets for the Martin Audio CGU is at risk of irrecoverability. The effect of these matters is that, as part of our risk assessment for audit planning purposes, we determined that the value in use had 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 19) disclose the sensitivity estimated by the Group.	Our procedures included: • **Historical accuracy:** Evaluated historical forecasting accuracy of key inputs, including cash forecasts by comparing the historical annual forecasts to the actual results; • **Historical comparisons:** Assessed the appropriateness of the key assumptions used in the cash flow projections by comparing those, where appropriate, to historical trends and external data; • **Benchmarking assumptions:** We compared the CGU discount rate, long-term growth and revenue growth rate calculations to comparative companies' rates. Additionally, we compared the CGU discount rate to our own calculated discount rate considering external market data, using our own valuation specialists; • **Sensitivity analysis:** Performed a sensitivity analysis over the reasonably possible combination of changes in the forecasts including but not limited to the impact of potential downside scenarios including changes in the discount rate, long term growth rate and limited to no growth in the forecast period; • **Comparing valuations:** Compared the sum of the discounted cash flows to the group's market capitalisation to assess the reasonableness of those cashflows; and • **Assessing transparency:** Assessed whether the group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of goodwill.

	The risk	Our response
Acquisition accounting (£14.5m; 2020: £39.6m) *Refer to page 65 (Audit Committee Report), page 90 (accounting policy) and page 97 (financial disclosures)*	**Subjective estimate:** During the year ended 31 August 2021, the Group acquired a 100% equity interest in Sequential LLC for a total consideration of £14.5m. The fair values of identifiable net assets acquired on the date of acquisition amounted to £12.1m 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 valuation methods included the use of forecast cash flows which required the directors to exercise estimation in determining the expected cash flows from the assets and the discount rates to be applied. There is also a risk that the business combination is not accounted for in accordance with the relevant accounting standard resulting in inappropriate under or over valuation of amortisable intangibles, with consequential impacts on goodwill.	Our procedures included: • **Assessment of valuer's credentials:** 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 deemed to be independent; • **Benchmarking assumptions:** We benchmarked the discount rates against peers in the same or similar industries; • **Tests of detail:** We read the acquisition agreements and assessed whether the assets and liabilities acquired reflect the contractual terms; • **Tests of detail:** We evaluated the appropriateness of the acquisition accounting against the requirements of the relevant accounting standards. We tested the appropriateness of the amounts recorded by agreeing these to the Sale and Purchase agreement and underlying calculations supported by documentary evidence as appropriate; • **Tests of detail:** We evaluated the valuation methodology used by the Group. This included assessing the intangible assets acquired, and the basis of their valuation; • **Tests of detail:** We assessed the key assumptions used in the value in use model including the discount rate, and revenue growth rates. This involved recalculating the discount rates and using the cashflows to perform sensitivity analysis on the discount rate and revenue growth rate. We also evaluated management's ability to forecast by comparing previous years budgets to actual results; and • **Assessing transparency:** We assessed the adequacy of the Group's disclosures in respect of the business combinations in Note 6 to the financial statements.

	The risk	Our response
Parent company risk: Recoverability of investment in Martin Audio entities (Investment balance £24.8m; 2020: £14.6m) *Refer to page 65 (Audit Committee Report), page 90 (accounting policy) and page 127 (financial disclosures)*	**Subjective estimate:** As a result of the acquisition of Martin Audio in the previous year, the parent company recognised an initial investment in Martin Audio subsidiary of £24.8m (£14.6m net of provision created last year). The live music industry has been slowly recovering from the impact of government restrictions as a result of the COVID-19 pandemic. The pandemic has had an adverse impact on the trading of Martin Audio as a result of the uncertainty in customer demand. As part of the impairment review, the directors have estimated a recoverable amount of the Martin Audio CGU which has resulted in a reversal of the impairment recognised last year. The estimated recoverable amount is subjective due to the inherent uncertainty involved in assumptions such as revenue growth (as the sector recovers from the impact of COVID-19 on demand over the coming years), long-term growth, and discount rates used in the discounted cash flows. As such, there is a risk that the impairment has been inappropriately reversed in the current financial year. The effect of these matters is that, as part of our risk assessment for audit planning purposes, we determined that the value in use had a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. In conducting our final audit work, we reassessed the degree of estimation uncertainty to be greater than the Parent Company materiality.	Our procedures included: • **Tests of detail:** Comparing the carrying amount of the Martin Audio investment balance with Martin Audio's balance sheet to identify whether its net assets, being an approximation of its minimum recoverable amount, were in excess of their carrying amount and assessing whether Martin Audio has historically been profit-making; • **Assessing subsidiary audit:** Considering the results of our audit work on the profits and net assets of Martin Audio; • **Comparing Valuations:** Compared the carrying amount of the investment in Martin Audio to the estimated value in use calculated by management for the annual impairment testing to determine if the investment balance is recoverable. • **Impairment reversal:** Assessed whether the increase in value in use supported the impairment reversal.

We continue to perform procedures over the capitalisation and recoverability of internally-generated intangible assets. However, following the decreasing level of judgement, the size of the balance, and the estimation involved, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

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 £1.50m (2020: £0.93m), determined with reference to a benchmark of group profit before tax (of which it represents 4.3% (2020: normalised to exclude last year's acquisition costs and impairment recognised as disclosed in note 15 (of which it represents 4.9%)).

Materiality for the parent company financial statements as a whole was set at £0.70m (2020: £0.56m), determined with reference to a benchmark of total assets, of which it represents 0.8% (2020: 1%).

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% (2020: 75%) of materiality for the financial statements as a whole, which equates to £1.13m (2020: £0.70m) for the group and £0.53m (2020: £0.42m) 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 £0.08m (2020: £0.05m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's nine (2020: six) reporting components, we subjected four (2020: four) to full scope audits for group purposes. We conducted reviews of financial information (including enquiry) at a further five (2020: two) non-significant components.

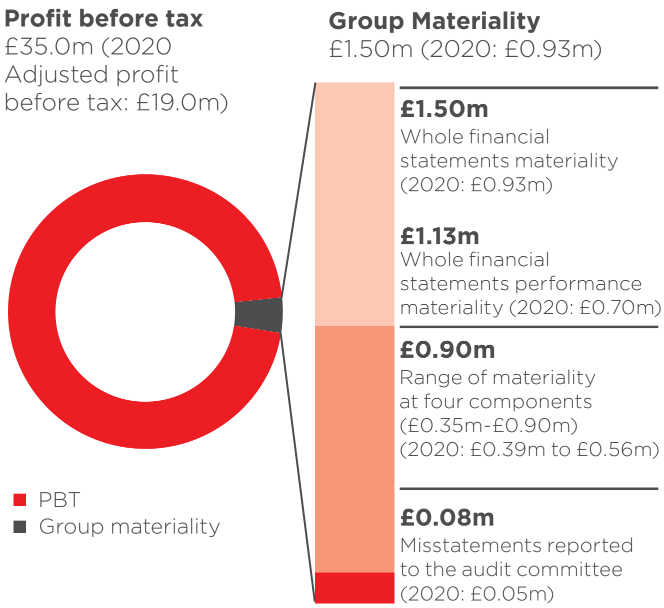
The components for which we performed work other than audits for group reporting purposes were not individually significant but were included in the scope of our group reporting work in order to provide further coverage over the group's results.

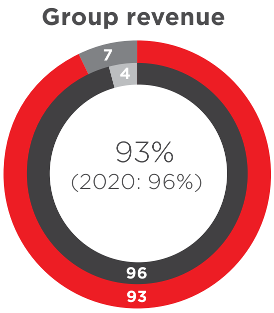
The components within the scope of our work accounted for the percentages illustrated opposite.

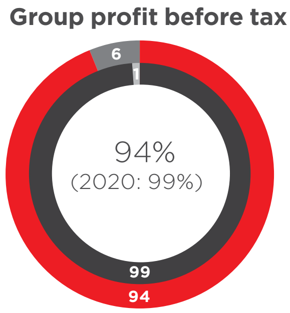
The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back.

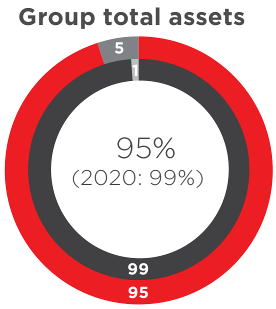
The Group team approved the component materialities, which ranged from £0.35m to £0.90m (2020: £0.39m to £0.56m), having regard to the mix of size and risk profile of the Group across the components. The work on one of the nine components (2020: one of the six components) was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team.

Due to COVID-19 restrictions the Group team visited nil (2020: nil) full scope audit component locations in Germany. To compensate for not being able to visit the component the group audit team were involved in a number of progress calls with the component auditor to monitor progress throughout the component audit. At these 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 auditors.









Full scope for group audit purposes 2021
Specified risk-focused audit procedures 2021
Full scope for group audit purposes 2021
Specified risk-focused audit procedures 2020
Residual components

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 continue to source scarce raw materials
- The maintenance of relationships with key distributors

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 3 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 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 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 group.

As required by auditing standards, and taking into account possible pressures to meet profit targets, we perform procedures to address the risk of management override of controls, in particular the risk that Group and component management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition as a result of the performance of the business being strong and therefore the incentive and pressure for fraudulent manipulation of the financial statements being low.

We did not identify any additional fraud risks.

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.

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 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, and 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 76, 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.

Michael Froom (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

15 November 2021

Consolidated Income Statement
For the year ended 31 August 2021

	Note	2021 £'000	2020 £'000
Revenue	7	**173,935**	130,141
Cost of sales		**(89,805)**	(70,248)
Gross profit		**84,130**	59,893
Administrative expenses		**(48,355)**	(51,485)
Impairment (loss) on trade and other receivables		**(1)**	(474)
Adjusted EBITDA (non-GAAP measure)		**47,548**	28,565
Depreciation and amortisation		**(6,133)**	(5,530)
Adjusting items for adjusted EBITDA:			
Amortisation of acquired intangible assets	15	**(4,013)**	(3,013)
Impairment of goodwill on acquisition	15	**–**	(10,200)
Adjusting items	15	**(1,628)**	(1,888)
Operating profit		**35,774**	7,934
Finance income	11	**48**	36
Finance costs	12	**(784)**	(945)
Profit before tax		**35,038**	7,025
Income tax expense	16	**(6,759)**	(2,934)
Profit for the period from continuing operations		**28,279**	4,091
Earnings per share			
From continuing operations		**Pence**	Pence
Basic (pence per share)	18	**48.8**	7.1
Diluted (pence per share)	18	**48.2**	7.0

The accompanying notes on pages 89 to 121 form part of these financial statements.

Consolidated Statement of Comprehensive Income
For the year ended 31 August 2021

	Note	2021 £'000	2020 £'000
Profit for the period (attributable to equity holders of the Company)		**28,279**	4,091
Items that may be reclassified subsequently to the income statement:			
Exchange differences on translation of foreign operations		**(726)**	105
Gain on forward foreign exchange contracts designated and effective as a hedging instrument		**445**	459
Tax on hedging instrument	25	**(85)**	(87)
Total comprehensive income for the period		**27,913**	4,568
Total comprehensive income attributable to:			
Equity holders of the Company		**27,913**	4,568
		27,913	4,568

The accompanying notes on pages 89 to 121 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 August 2021

	Note	2021 £'000	2020 £'000
Assets			
Non-current assets			
Goodwill	19	**10,054**	7,882
Other intangible assets	20	**49,066**	40,374
Property, plant and equipment	21	**3,646**	4,082
Total non-current assets		**62,766**	52,338
Current assets			
Inventories	23	**20,749**	19,372
Trade and other receivables	24	**14,775**	17,744
Cash and cash equivalents	31	**17,339**	14,975
Current tax asset	16	**869**	–
Derivative financial instruments	34	**716**	271
Total current assets		**54,448**	52,362
Current liabilities			
Trade and other payables	27	**(23,673)**	(23,417)
Other liabilities	26	**(774)**	(1,018)
Current tax liabilities		**–**	(452)
Provisions	28	**(1,092)**	(1,094)
Total current liabilities		**(25,539)**	(25,981)
Net current assets		**28,909**	26,381
Total assets less current liabilities		**91,675**	78,719
Non-current liabilities			
Deferred tax	25	**(5,996)**	(7,772)
Other liabilities	26	**(511)**	(889)
Provisions	28	**(1,069)**	(1,519)
Bank loan	34	**248**	(11,641)
Total non-current liabilities		**(7,328)**	(21,821)
Total liabilities		**(32,867)**	(47,802)
Net assets		**84,347**	56,898
Equity and liabilities			
Capital and reserves			
Share capital	29	**59**	58
Share premium	30	**115**	115
Merger reserve	30	**14,595**	14,595
Merger difference reserve	30	**(13,147)**	(13,147)
Translation reserve	30	**(529)**	197
Hedging reserve	30	**716**	220
EBT reserve	30	**(1)**	(1)
Retained earnings		**82,539**	54,861
Equity attributable to owners of the Company		**84,347**	56,898
Total equity		**84,347**	56,898

The financial statements were approved by the Board of Directors and authorised for issue on 15 November 2021. 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 89 to 121 form part of these financial statements.

Consolidated Statement of Changes in Equity
For the year ended 31 August 2021

	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 2019	58	115	14,595	(13,147)	92	(152)	(1)	51,827	53,387
Profit for the period	–	–	–	–	–	–	–	4,091	4,091
Other comprehensive income for the period	–	–	–	–	105	372	–	–	477
Total comprehensive income for the period	–	–	–	–	105	372	–	4,091	4,568
Transactions with owners of the Company:									
Share-based payment deferred tax deduction in excess of remuneration expense	–	–	–	–	–	–	–	162	162
Share-based payment current tax deduction in excess of remuneration expense	–	–	–	–	–	–	–	457	457
Shares from EBT exercised	–	–	–	–	–	–	–	252	252
Share-based payments	–	–	–	–	–	–	–	537	537
Shares withheld to settle employees' tax obligations	–	–	–	–	–	–	–	(192)	(192)
Premium on shares issued in lieu of bonuses	–	–	–	–	–	–	–	(22)	(22)
Dividends paid	–	–	–	–	–	–	–	(2,251)	(2,251)
Balance at 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 for the period	**–**	**–**	**–**	**–**	**(726)**	**445**	**–**	**(85)**	**(366)**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**(726)**	**496**	**–**	**28,143**	**27,913**
Shares issued to EBT	**1**	**–**	**–**	**–**	**–**	**–**	**(1)**	**–**	**–**
Transactions with owners of the Company:									
Share-based payment deferred tax deduction in excess of remuneration expense	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**786**	**786**
Share-based payment current tax deduction in excess of remuneration expense	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**690**	**690**
Shares from EBT exercised	**–**	**–**	**–**	**–**	**–**	**–**	**1**	**660**	**661**
Share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**632**	**632**
Shares withheld to settle employees' tax obligations	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(739)**	**(739)**
Premium on shares issued 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**

The accompanying notes on pages 89 to 121 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 August 2021

	Note	2021 £'000	2020 £'000
Operating activities			
Profit for the financial year		**28,279**	4,091
Adjustments for:			
Income tax expense	16	**6,759**	2,934
Net interest	11, 12	**736**	909
Loss on disposal of property, plant and equipment		**4**	–
Loss on disposal of intangible assets		**498**	–
Amortisation of intangibles	20	**8,126**	6,780
Impairment of goodwill	19	**–**	10,200
Depreciation of property, plant and equipment	21	**2,022**	1,777
Share-based payments charge	32	**973**	537
Operating cash flows before movements in working capital		**47,397**	27,228
Decrease in trade and other receivables		**3,533**	3,852
(Increase)/decrease in inventories		**(1,023)**	1,914
(Decrease)/increase in trade and other payables		**(773)**	7,932
Operating cash flows before interest and tax paid		**49,134**	40,926
Net interest paid		**(311)**	(441)
Income taxes paid		**(9,741)**	(3,539)
Cash generated by operations		**39,082**	36,946
Net foreign exchange movements		**(566)**	(322)
Net cash from operating activities		**38,516**	36,624
Investing activities			
Purchases of property, plant and equipment	21	**(1,126)**	(3,966)
Purchases of intangible assets	20	**(5,485)**	(5,649)
Acquisition of subsidiary, net of cash acquired		**(13,948)**	(35,309)
Net cash used in investing activities		**(20,559)**	(44,924)
Financing activities			
Proceeds from loans and borrowings	34	**7,353**	36,000
Repayments of loans and borrowings	34	**(19,335)**	(24,000)
Loan arrangement fee		**–**	(372)
Payment of right-of-use liabilities	26	**(1,057)**	(980)
Equity dividends paid		**(2,554)**	(2,251)
Net cash used in financing activities		**(15,593)**	8,397
Net increase in cash and cash equivalents		**2,364**	97
Cash and cash equivalents at beginning of year		**14,975**	14,878
Cash and cash equivalents at end of year	31	**17,339**	14,975

The accompanying notes on pages 89 to 121 form part of these financial statements.

Notes to the Financial Statements
For the year ended 31 August 2021

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 2021 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 financial statements for the year ended 31 August 2021 are presented in Pounds ('GBP' thousands; £'000). This is the functional currency of the Company.

The financial statements have been prepared in accordance with International Accounting Standards ('IAS') in conformity 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 15 November 2021.

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
- Component shortages extending further into the future than budgeted
- Loss of key distribution contracts

The base case covers the period to February 2023 and includes demanding but achievable forecast growth. The forecast has been extracted from the Group's FY22 budget and three-year plan for the period from September 2022 to August 2024. Key assumptions include:

- Future growth assumptions consistent with those recently achieved by the business, reduced for estimated component shortages and adjusted for the annualisation of Sequential's results.
- Free cash flow as a percentage of revenue 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.

Throughout the period the forecast cash flow information indicates that the Group will have sufficient cash reserves. No draw down from the facility would be required.

The Directors' have modelled a severe but plausible downside scenario which combines 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, and the Group would 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 around £3.5 million for a period of 6 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 -0.2x compared to the maximum of -2.5x.

Separately, the Directors estimate that if the Group were to experience a shortfall in revenue of greater than 60% permanently from the start of the forecast period, debt and leverage could rise to the upper limits allowed by the banking covenants by August 22. This scenario includes consequential reductions in the purchases of stock and overheads. As an additional measure, the Directors could also cancel the dividend. However, the Directors view is that any scenario of a revenue shortfall of greater than the severe plausible scenario above is not realistic.

In reality, the Group is still experiencing high levels of consumer registrations and customer demand, and therefore the high levels of revenue have been maintained since year end. This is evidenced by improvements in the Group's net cash position which has increased from the £17.3 million reported at year end to approximately £21.9 million at 1 November 2021. Consequently, 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
In the current year, the Group has applied the annual improvements to IFRS 2015-2017 cycle, which is mandatorily effective. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Standards not affecting the reported results or the financial position
At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- Annual improvements to IFRS 2018-2020 cycle
- Amendments regarding pre-replacement issues in the context of the IBOR reform
- Amendments to References to the Conceptual Framework in IFRS
- Amendments to IFRS 3 Business Combinations
- Amendments to IFRS 16 Leases
- Issue of IFRS 17 Insurance Contracts to replace IFRS 4 Insurance Contracts
- Amendments to IAS 1 Presentation of Financial Statements
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- Amendments to IAS 12 Income Taxes
- Amendments to IAS 16 Property, Plant and Equipment
- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets

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 users. These cover all segments and geographical markets. Revenue from sales to distributors, resellers and sales 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 result. Items included are acquisition and restructuring costs. 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-to-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.

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.

3 Significant accounting policies continued
Exchange differences are recognised in profit or loss 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 profit and loss 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

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 income 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 3 years
Purchased intellectual property	2 years
Licences	2 to 5 years
Software	2 years

Acquired intangible assets
Acquired intangible assets 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

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.

3 Significant accounting policies continued
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 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.

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).

Notes to the Financial Statements continued

For the year ended 31 August 2021

3 Significant accounting policies continued
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
Revenue recognition
Stock is sold and revenue recognised when we have satisfied our performance obligations to distributors and dealers. The key judgement required is in the USA where the Group has a single distributor: American Music & Sound ('AMS').

The Group's subsidiary, Focusrite Group US ('FGUS'), works closely with AMS to market the Group's products and maintain relationships with AMS' customers.

However, in the judgement of the Directors, the Group does not have continuing managerial involvement over the goods sold to the degree usually associated with ownership, thereby signalling that AMS is a principal, rather than an agent of the Group. The reasons for this view include the facts that AMS has responsibility for providing goods to the customer, responsibility for the collection of payments from their customers and has no right of return to the Group. Additionally, under the terms of sale, control of goods is passed to AMS before they are transferred to the customer. This judgement is consistent with prior periods.

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.

Valuing acquired intangible assets
Since most acquired intangibles 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 setting customer attrition rates, 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 acquisition totalled £12,212,000.

Other judgements and estimates
The Directors have also applied the following judgements and estimates to these financial statements, but consider them to be immaterial in this financial year.

Stock manufactured and distributed by third-party
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 £1,309,000.

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. As goodwill held in Martin Audio was impaired in FY20, this estimate is considered material in that financial year.

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 2021 at £9,138,000 (2020: £8,184,000). The amount capitalised in the year was £4,894,000 (2020: £4,582,000). 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.

Key assumptions and sensitivities for impairment are disclosed in note 19.

5 Alternative performance measures ('APMs')
The Group has applied certain alternative performance measures ('APMs') within these financial results. 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 considers 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 and restructuring costs.

The following APMs have been used in these financial results:

- Organic growth – the organic constant currency growth rate is calculated by comparing FY21 revenue to FY20 revenue adjusted for FY21 exchange rates and the impact of acquisitions.
- 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 which comprise costs relating to the acquisition of Sequential LLC (£0.7 million), earnout payable to employees of Sequential (£0.8 million), restructuring of the US (£0.1 million) and amortisation of acquired intangibles (£4.0 million).
- Adjusted earnings per share ('EPS') – earnings per share excluding adjusting items.
- Free cash flow – defined as net cash from operating activities less net cash used in investing and financing activities, excluding dividends paid.
- Underlying free cash flow – as free cash flow but adding back adjusting item cash flows relating to repayment of RCF drawn down for acquisitions.
- Net debt – comprised of cash and cash equivalents, overdrafts and amounts drawn against the RCF including the costs of arranging the RCF.

6 Acquisition of a subsidiary
On 26 April 2021 the Group completed the acquisition of 100% of the share capital of Sequential LLC. The total consideration paid was $20 million (£14.5 million) on completion, with a potential for $4 million further. This $4 million has been classed as employee remuneration rather than contingent consideration as it is payable directly to employees and is subject to their continuing employment with Sequential until December 2022. The acquisition was funded through a combination of existing cash resources and an £8 million drawdown on the existing revolving credit facility of £40 million with HSBC and NatWest. This borrowing was repaid before year end.

Sequential is headquartered in San Francisco, California in the historically and culturally rich North Beach neighbourhood from where it continues to operate and is led by legendary instrument designer and Grammy winner Dave Smith, who founded Sequential Circuits in 1974.

The Sequential portfolio of high-end analogue synthesisers dramatically expands the footprint the Group has with its Novation branded instruments, offering more premium priced solutions for electronic artists. By extending the Group's business into new products and markets, which complement its existing offerings, the acquisition is strategically aligned with the Company's previously communicated aims of growing the core customer base, expanding into new markets and increasing lifetime value for customers.

The Group also sees the possibility of future synergies between the Sequential and Novation's R&D teams to bring new innovative products to market that will further the Group's mission of 'removing barriers to creativity'.

For the four-month period between the acquisition and 31 August 2021, Sequential contributed revenue of £5,299,000 and a profit before tax of £1,314,000 to the Group. If the acquisition had occurred on 1 September 2020, management estimates that Sequential's revenue would have been £18,158,000 and profit before tax for the year would have been £4,769,000. In determining these amounts management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 September 2020.

6 Acquisition of a subsidiary continued

Acquisition-related costs

The Group incurred acquisition-related costs of £716,000 on legal fees and due diligence costs. These have been included in adjusting item costs to give investors a better understanding of the costs related to the acquisition of Sequential. Additionally, because of their size, nature and the fact they vary from acquisition to acquisition, the Group considers it a better reflection of the trading performance of the Group 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
Brand	6,070
Developed technology	5,961
Technology in development	181
Other intangible assets	12,212
Property, plant and equipment	23
Cash	547
Inventories	354
Trade and other receivables	518
Trade and other payables	(1,556)
Net identifiable assets and liabilities at fair value	12,098
Goodwill recognised on acquisition	2,397
Consideration paid and accrued	14,495

No deferred tax liability arises on the acquisition of Sequential as the Group is anticipating full tax relief on amortisation of goodwill and intangibles within the US.

Measurement of fair values

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

Assets acquired	Valuation technique
Property, plant and equipment	Cost approach
Intangible assets – developed technology and technology in development	Income approach (multi-period excess earnings method) Key assumptions used include: • Ongoing development of new products • Operating margins are in line with existing margins for that operation • Discount rates of 16.5% • Useful economic life ranges from 10 to 15 years
Intangible assets – brand	Income approach (relief from royalty method) Key assumptions used include: • Revenue forecasts have been allocated to individual brands • Royalty rates of 2% to 5% applied • Discount rate of 15.5% • Useful economic life ranges from 10 to 15 years
Inventories	Cost approach

Fair values measure on a provisional basis

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

Goodwill

The goodwill is attributable to:

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

Intangible assets sensitivity analysis

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

Amortisation is calculated based on the constant that brand is recognised at cost of £6,070,000, developed technology at £5,961,000 and technology in development at £181,000.

	Brand (Sequential & Prophet)			Brand (OB6 & OB-X)		
	14 years £'000	15 years £'000	16 years £'000	9 years £'000	10 years £'000	11 years £'000
Annual amortisation	413	395	379	16	14	13
Impact on profit	(18)	–	16	(2)	–	1

	Developed technology			Technology in development		
	14 years £'000	15 years £'000	16 years £'000	9 years £'000	10 years £'000	11 years £'000
Annual amortisation	423	397	375	20	18	16
Impact on profit	(26)	–	22	(2)	–	2

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

	Brand (Sequential & Prophet)			Brand (OB6 & OB-X)		
	14 years £'000	15 years £'000	16 years £'000	9 years £'000	10 years £'000	11 years £'000
Fair value	–	5,925	–	–	145	–
Impact on valuation	(145)	–	145	–	–	–

	Developed technology			Technology in development		
	14 years £'000	15 years £'000	16 years £'000	9 years £'000	10 years £'000	11 years £'000
Fair value	–	5,961	–	–	181	–
Impact on valuation	(36)	–	36	–	–	–

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

7 Revenue

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

	Year ended 31 August 2021				Year ended 31 August 2020			
	EMEA £'000	**North America £'000**	**Rest of World £'000**	**Total £'000**	EMEA £'000	North America £'000	Rest of World £'000	Total £'000
Focusrite	**37,403**	**47,200**	**12,615**	**97,218**	32,128	32,782	11,268	76,178
Focusrite Pro	**1,635**	**2,238**	**1,004**	**4,877**	1,071	1,625	796	3,492
Focusrite combined	**39,038**	**49,438**	**13,619**	**102,095**	33,199	34,407	12,064	79,670
Novation	**9,242**	**9,706**	**3,314**	**22,262**	8,290	7,013	4,080	19,383
ADAM Audio	**11,849**	**8,073**	**3,943**	**23,865**	8,784	6,352	2,245	17,381
Martin Audio	**6,983**	**4,787**	**8,628**	**20,398**	4,493	3,089	4,432	12,014
Sequential	**2,164**	**2,629**	**506**	**5,299**	–	–	–	–
Distribution	**16**	**–**	**–**	**16**	1,693	–	–	1,693
Total	**69,292**	**74,633**	**30,010**	**173,935**	56,459	50,861	22,821	130,141

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 branded products
Focusrite Pro	–	Sales of Focusrite Pro branded products
Novation	–	Sales of Novation or Ampify branded products
ADAM Audio	–	Sales of ADAM Audio branded products
Martin Audio	–	Sales of Martin Audio branded products
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 following is an analysis of the Group's revenue and results by reportable segment:

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. 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 £973,000 for the year ended 31 August 2021 (2020: £537,000).

	Year ended 31 August	
	2021 £'000	2020 £'000
Revenue from external customers		
Focusrite	**97,218**	76,178
Focusrite Pro	**4,877**	3,492
Novation	**22,262**	19,383
ADAM Audio	**23,865**	17,381
Martin Audio	**20,398**	12,014
Sequential	**5,299**	–
Distribution	**16**	1,693
Total	**173,935**	130,141
Segment profit		
Focusrite	**47,798**	35,602
Focusrite Pro	**2,540**	1,916
Novation	**7,965**	8,458
ADAM Audio	**14,040**	8,828
Martin Audio	**9,471**	5,032
Sequential	**2,341**	–
Distribution	**(25)**	57
	84,130	59,893
Central distribution costs and administrative expenses	**(46,728)**	(39,871)
Goodwill impairment	**–**	(10,200)
Adjusting items (note 15)	**(1,628)**	(1,888)
Operating profit	**35,774**	7,934
Finance income	**48**	36
Finance costs	**(784)**	(945)
Profit before tax	**35,038**	7,025
Tax	**(6,759)**	(2,934)
Profit after tax	**28,279**	4,091

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

	2021 £'000	2020 £'000
Non-current assets		
North America	**15,104**	760
Europe, Middle East and Africa	**45,277**	49,611
Rest of the World	**2,385**	1,967
Total non-current assets	**62,766**	52,338

Assets held within North America have increased significantly since FY20 due to the acquisition of Sequential. See note 6 for further details on assets acquired.

Information about major customers
Included in revenues shown for 2021 is £53.2 million (2020: £35.4 million) attributed to the Group's largest customer, which is located in the USA. Amounts owed at the year end were £4.2 million (2020: £6.4 million).

9 Profit for the year

Profit for the year has been arrived at after charging:

		Year ended 31 August	
	Note	2021 £'000	2020 £'000
Net foreign exchange losses	11, 12	**333**	427
Research and development costs (excluding costs capitalised)		**2,374**	2,441
Depreciation and impairment of property, plant and equipment	21	**2,022**	1,777
Amortisation of intangibles	20	**8,126**	6,690
Impairment of goodwill on acquisition	19	**–**	10,200
Cost of inventories recognised as an expense		**76,488**	61,419
Staff costs (excluding share-based payments)	13	**22,138**	17,737
Movement in expected credit loss	24	**1**	474
Share-based payments charged to profit and loss	32	**973**	537

10 Auditor's remuneration

	Year ended 31 August	
	2021 £'000	2020 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**218**	182
Additional fee in respect of prior year audit	**30**	60
Fees payable to the Company's auditor and its associates for other services	**–**	–
Audit of the accounts of subsidiaries pursuant to legislation	**149**	124
Total audit service	**397**	366
Audit-related assurance services (half-year review)	**40**	40
	437	406

No other tax or assurance services were provided by the Group's auditors in FY21 or FY20.

11 Finance income

	Year ended 31 August	
	2021 £'000	2020 £'000
Bank deposit interest	**–**	36
Exchange gain	**48**	–
	48	36

12 Finance costs

	Year ended 31 August	
	2021 £'000	2020 £'000
Bank charges	**282**	436
Unwinding of RCF arrangement fee	**93**	13
Charge on right-of-use assets	**28**	69
Exchange losses	**381**	427
	784	945

13 Staff costs

	Year ended 31 August	
	2021 £'000	2020 £'000
Wages and salaries	**21,855**	18,127
Social security costs	**2,623**	1,789
Other pension costs	**538**	337
Share-based payments	**973**	537
	25,989	20,790
Less amounts capitalised within development costs	**(3,851)**	(3,053)
	22,138	17,737

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

	2021 Number	2020 Number
Research and development	**132**	106
Sales and marketing	**117**	95
Operations	**145**	125
Administration and central	**55**	43
	449	369

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 DRR, which forms part of this Annual Report and Accounts (page 68), and in note 3 of the Company financial statements (page 125).

15 Adjusting items

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

	Year ended 31 August	
	2021 £'000	2020 £'000
Acquisition costs	**716**	1,737
Earnout accrual in relation to acquisition	**788**	–
Restructuring	**124**	151
Adjusting items	**1,628**	1,888
Amortisation of acquired intangible assets	**4,013**	3,013
Impairment of goodwill on acquisition	**–**	10,200
Total adjusting items for adjusted EBITDA	**5,641**	15,101

Acquisition costs in FY21 relate solely to the acquisition of Sequential and the earnout accrual relates to the $4 million classed as employee remuneration rather than contingent consideration. It is payable directly to employees and is subject to their continuing employment with Sequential until December 2022. Restructuring costs relate to the merger of the US based subsidiaries into one operating company from 1 September 2021.

Acquisition costs in the 12 months to 31 August 2020 included costs of £1,644,000 relating to Martin Audio. Restructuring costs related to the costs of people changes following the ADAM Audio acquisition.

16 Tax

	Year ended 31 August 2021 £'000	2020 £'000
Corporation tax charges		
(Over)/under provision in prior year	**(367)**	75
Current year	**8,099**	3,362
	7,732	3,437
Deferred taxation		
Current year	**(973)**	(503)
	6,759	2,934

Corporation tax is calculated at 19% (2020: 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 2021 £'000	2020 £'000
Current taxation		
Profit before tax on continuing operations	**35,038**	7,025
Tax at the UK corporation tax rate of 19% (2020: 19%)	**6,657**	1,335
Effects of:		
Expenses not deductible for tax purposes	**615**	2,582
Deferred tax assets recognition	**(1,385)**	–
Other differences	**(28)**	–
R&D tax credit	**–**	(1,219)
Prior period adjustment	**(367)**	75
Effect of change in standard rate of deferred tax	**1,147**	–
Impact of foreign tax rates	**120**	161
Tax charge for the year	**6,759**	2,934

Expenses not deductible relate to the costs of acquiring Sequential LLC.

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

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

	2021 £'000	2020 £'000
Share-based payment deferred tax deduction in excess of remuneration expense	**786**	162
Share-based payment current tax deduction in excess of remuneration expense	**690**	457
	1,476	619

The corporation tax debtor of £869,000 (2020: liability £452,000) relates to overpayments to tax authorities throughout the year, as well as an advance made to the German tax authorities, in respect of the US reorganisation (discussed in note 38). €469,000 was advanced to the German tax authorities in the form of withholding tax. This is expected to be recoverable and will offset our future tax liability.

The Finance Act 2021 enacted legislation to maintain the current rate of corporation tax at 19%, up until at least the end of tax year ended 31 March 2023. Thereafter, the headline rate of corporation tax will rise to 25%.

Notes to the Financial Statements continued

For the year ended 31 August 2021

17 Dividends

The following equity dividends have been declared:

	Year to 31 August 2021	Year to 31 August 2020
Dividend per qualifying ordinary share	**5.2p**	4.2p

During the year, the Company paid an interim dividend in respect of the year ended 31 August 2021 of 1.5 pence per share.

On 15 November 2021, the Directors recommended a final dividend of 3.7 pence per share (2020: 2.9 pence per share), making a total of 5.2 pence per share for the year (2020: 4.2 pence 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	
Earnings	**2021 £'000**	2020 £'000
Earnings for the purposes of basic and diluted EPS, being net profit for the period	**28,279**	4,091
Adjusting items (note 15)	**5,641**	15,101
Tax on adjusting items	**(165)**	(26)
Total underlying profit for adjusted EPS calculation	**33,755**	19,166

	Year ended 31 August	
	2021 Number '000	2020 Number '000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic EPS calculation	**57,993**	57,680
Effect of dilutive potential ordinary shares:		
Share option plans	**725**	812
Weighted average number of ordinary shares for the purposes of diluted EPS calculation	**58,718**	58,492
EPS	**Pence**	Pence
Basic EPS	**48.8**	7.1
Diluted EPS	**48.2**	7.0
Adjusted basic EPS	**58.2**	33.2
Adjusted diluted EPS	**57.5**	32.8

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 2021, the total number of ordinary shares issued and fully paid was 58,661,639. This included 554,712 (2020: 359,483) 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 (58,488,351) less the weighted average number of shares held by the EBT (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.

19 Goodwill and intangible assets with indefinite useful life

	Sequential £'000	Martin Audio £'000	ADAM Audio £'000	Novation Digital Music Systems £'000	Total £'000
Cost					
At 1 September 2019	–	–	4,852	419	5,271
Additional goodwill recognised on business combinations	–	12,564	247	–	12,811
At 31 August 2020	–	12,564	5,099	419	18,082
Additional goodwill recognised on business combinations	2,397	–	–	–	2,397
Foreign exchange	–	–	(225)	–	(225)
At 31 August 2021	**2,397**	**12,564**	**4,874**	**419**	**20,254**

	Sequential £'000	Martin Audio £'000	ADAM Audio £'000	Novation Digital Music Systems £'000	Total £'000
Carrying amount					
At 1 September 2019	–	–	4,852	419	5,271
Additional goodwill recognised on business combinations	–	12,564	247	–	12,811
Loss on impairment	–	(10,200)	–	–	(10,200)
At 31 August 2020	–	2,364	5,099	419	7,882
Additional goodwill recognised on business combinations	2,397	–	–	–	2,397
Loss on impairment	–	–	–	–	–
Foreign exchange	–	–	(225)	–	(225)
At 31 August 2021	**2,397**	**2,364**	**4,874**	**419**	**10,054**

In note 20 'Other intangible assets', there are £3,268,000 of development costs which have not started amortisation. These are projects in development and are considered to be intangible assets that have not yet started amortisation.

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

CGUs	Goodwill £'000	Intangible assets with indefinite useful life £'000
Focusrite	419	1,411
Focusrite Pro	–	653
Novation	–	447
ADAM Audio	4,874	757
Martin Audio	2,364	–
Sequential	2,397	–
Total	**10,054**	**3,268**

Assumptions for assessment of impairment

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

All CGUs have applied a perpetual 1% growth rate based on International Monetary Fund ('IMF') estimates of long-term inflation.

To review the sensitivity of the key assumptions, all impairment assessments have been tested using the following sensitivities:

- 1% increase or reduction to perpetual growth rate.
- 3% increase or reduction to Compound Annual Growth Rate ('CAGR').
- 1% increase or decrease to discount rate.

19 Goodwill and intangible assets with indefinite useful life continued
The impairment review undertaken as described below for all CGU's covers goodwill, intangible assets with indefinite useful lives and other internally-generated assets totalling £5.8 million.

Focusrite, Focusrite Pro and Novation
An impairment assessment in relation to each of these CGUs was performed by management. The recoverable amounts of these CGUs have been determined based on the value in use method. The calculations use cash flow projections based on financial budgets approved by management covering a three-year period over which a CAGR of 9% was applied. Cash flows beyond that three-year period have been extrapolated to achieve a 6% CAGR overall to the end of FY26, and a perpetual 1% growth rate (FY20: 2%) based on IMF estimates of long-term inflation thereafter. A pre-tax discount rate of 9.4% (2020: 9.3%) has been assumed. These assumptions have been applied against Focusrite, Focusrite Pro and Novation CGUs.

Management believes that any reasonably possible change in the key assumptions on which these three CGUs' recoverable amounts are based would not cause the carrying amount to exceed their respective recoverable amounts.

ADAM Audio
The recoverable amount of ADAM Audio has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a three-year period and a consistent growth rate in the two financial years following the management forecasts, leading to an applied CAGR of 11% over the five-year period. A pre-tax discount rate of 12.1% has been assumed, compared to the rate applied in FY20 of 13.8%. The reduction in discount rate is due to updated assumptions based on technical and current market conditions due to strong performance in the sector since acquisition; risk has reduced therefore the discount rate has reduced.

Cash flows beyond that five-year period have been extrapolated using a perpetual 1% growth rate (FY20: 2%) based on IMF estimates of long-term inflation. Management believes that any reasonably possible change in the key assumptions on which ADAM Audio's recoverable amount is based would not cause ADAM Audio's carrying amount to exceed its recoverable amount.

Martin Audio
The recoverable amount of Martin Audio has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a three-year period and a consistent growth rate in the two financial years following the management forecasts leading to an applied CAGR of 13% over the five-year period. A pre-tax discount rate of 12.8% has been assumed compared to the discount rate applied in FY20 of 13.8%. The reduction in discount rate is due to updated assumptions based on technical and current market conditions and reduction to market risk to reflect membership of the Group. Any uncertainty risks are reflected within the base cash flows and not the discount rate.

Cash flows beyond that five-year period have been extrapolated using a perpetual 1% growth rate based on IMF estimates of long-term inflation. Management believes that any reasonably possible change in the key assumptions on which Martin Audio's recoverable amount is based would not cause Martin Audio's carrying amount to exceed its recoverable amount.

Sequential
The recoverable amount of Sequential has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a three-year period and a consistent growth rate in the two financial years following the management forecasts leading to an applied CAGR of 6% over the five-year period. A pre-tax discount rate of 12.3% has been applied. The discount rate has been calculated with reference to WACC calculated with reference to an industry peer group adjusted for Group-applied 20-year nominal risk-free rate and market risk premium. Any uncertainty risks are reflected within the base cash flows and not the discount rate.

Cash flows beyond that five-year period have been extrapolated using a perpetual 1% growth rate based on IMF estimates of long-term inflation. Management believes that any reasonably possible change in the key assumptions on which Sequential's recoverable amount is based would not cause Sequential's carrying amount to exceed its recoverable amount.

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 2019	536	20,104	4,043	103	422	1,008	7,500	33,716
Additions – products previously under development	44	–	–	63	404	224	–	735
Additions – products developed during the year	–	2,698	–	–	–	81	–	2,779
Additions – from development in progress	–	1,884	–	–	–	–	–	1,884
Additions through business combination	–	–	15,900	–	–	224	6,800	22,924
Disposals	–	(996)	–	–	–	(10)	–	(1,006)
At 31 August 2020	580	23,690	19,943	166	826	1,527	14,300	61,032
Additions – products previously under development	2	488	–	30	229	330	–	1,079
Additions – products developed during the year	–	2,802	–	–	–	–	–	2,802
Additions – from development in progress	–	1,604	–	–	–	–	–	1,604
Additions through business combination	–	–	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**
Amortisation								
At 1 September 2019	353	13,386	110	95	269	576	95	14,884
Charge for the year	167	3,026	2,042	27	195	260	973	6,690
Eliminated on disposal	–	(906)	–	–	–	(10)	–	(916)
At 31 August 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**
Carrying amount								
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
At 31 August 2019	183	6,718	3,933	8	153	432	7,405	18,832

In FY21, disposals include £315,000 of development costs previously capitalised but are no longer viable projects (FY20: £996,000). The remaining disposals relate to fully amortised assets.

Transfers relate to assets that have been previously misclassified.

21 Property, plant and equipment

	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 2019	2,271	–	1,055	941	157	4,424
Additions	824	2,840	33	261	8	3,966
Additions through business combination	207	–	43	36	8	294
Disposals	(10)	–	–	(2)	(34)	(46)
At 31 August 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**
Accumulated depreciation and impairment						
At 1 September 2019	1,255	–	721	693	155	2,824
Charge for the year	344	1,080	98	250	5	1,777
Eliminated on disposals	(10)	–	–	–	(35)	(45)
At 31 August 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)	–
Eliminated on 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**
Carrying amount						
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
At 31 August 2019	1,016	–	334	248	2	1,600

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	**2021 %**	2020 %
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.	USA	514 E Iris Drive, Nashville, TN, 37204	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	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	USA	3108 Glendale Blvd., #669 Los Angeles, CA 90039	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**	–
Sequential LLC[5]	USA	1527 Stockton Street, 3rd Floor, San Francisco, CA 94133, 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 38 for more details.

23 Inventories

	2021 £'000	2020 £'000
Raw materials	**2,226**	3,545
Work in progress	**1,471**	3,441
Finished goods	**17,052**	12,386
	20,749	19,372

Inventories in the current year increased due to the acquisition of Sequential LLC, which resulted in acquired stock of £2,075,000 at acquisition date and £1,659,000 as at year end. See note 3 for the relevant accounting policy.

The stock value includes a provision of £2,855,000 (2020: £3,303,000). 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, £308,000 (2020: nil) was reversed and £140,000 (2020: £17,000) was utilised during the year.

Stock charged to cost of sales during the year were £76,488,000 (2020: £61,419,000).

No inventories have been pledged as security against borrowings (2020: £nil). The write-down of inventories to net realisable value amounted to £nil (2020: £463,000). The reversal of write-downs amounted to £nil (2020: £nil). The write-down and reversal are included in cost of sales.

24 Trade and other receivables

	2021 £'000	2020 £'000
Amount receivable for the sale of goods	**12,234**	15,856
Expected credit loss	**(484)**	(483)
	11,750	15,373
Other debtors	**1,042**	375
Prepayments	**1,484**	981
Other taxation recoverable	**499**	1,015
	14,775	17,744

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 2020 or 2021 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 34% of the total balance of trade receivables net of allowances for doubtful debts on 31 August 2021 (2020: 40%) and 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

	2021 £'000	2020 £'000
Not overdue	**9,605**	14,344
Overdue between 0-30 days	**2,019**	868
Overdue between 31-60 days	**77**	54
Overdue between 61-90 days	**49**	10
Overdue more than 90 days	**-**	97
	11,750	15,373

Movement in the expected credit loss

	2021 £'000	2020 £'000
Balance at the beginning of the period	**483**	9
Movement in expected loss recognised	**1**	67
Assumed as part of business combination	**–**	407
Balance at the end of the period	**484**	483

Ageing of impaired trade receivables

	2021 £'000	2020 £'000
Overdue up to 30 days	**11**	25
Overdue between 31-60 days	**44**	–
Overdue between 61-90 days	**3**	–
Overdue between 91-120 days	**5**	16
Overdue more than 120 days	**421**	442
	484	483

Of the £484,000 (2020: £483,000) provision for expected credit loss, £350,000 of this covers debt that has been provided for in full (2020: £408,000).

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

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 2019	3,402	1,332	(414)	–	(36)	4,284
Debit/(credit) to profit or loss	(745)	310	(71)	–	–	(506)
Debit/(credit) to other comprehensive income	–	–	–	–	87	87
Arising on business combinations	4,313	(244)	–	–	–	4,069
Credit to equity	–	–	(162)	–	–	(162)
At 31 August 2020	6,970	1,398	(647)	–	51	7,772
Transfers	**–**	**244**	**–**	**(244)**	**–**	**–**
Debit/(credit) to profit or loss	**(1)**	**384**	**2**	**(1,347)**	**–**	**(962)**
Debit/(credit) to other comprehensive income	**(113)**	**–**	**–**	**–**	**85**	**(28)**
Credit to equity	**–**	**–**	**(786)**	**–**	**–**	**(786)**
At 31 August 2021	**6,856**	**2,026**	**(1,431)**	**(1,591)**	**136**	**5,996**

25 Deferred tax continued
Other deferred tax includes £852,000 (2020: £nil) relating to deferred tax assets on the elimination of intercompany profit within stock and £551,000 relating to future goodwill deductions in Focusrite Group US Inc. Also within this balance is a deferred tax asset of £271,000 (2020: £nil) relating to a short timing difference arising from accrued employee compensation as a result of the acquisition.

The transfer in year relates to reclassification of a deferred tax asset from capitalised development costs to accelerated capital allowances.

Deferred tax assets and liabilities are offset and relate 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:

	2021 £'000	2020 £'000
Deferred tax liabilities	**9,018**	8,016
Deferred tax assets	**(3,022)**	(244)
	5,996	7,772

26 Leases
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 three years in term, with the last leases due to expire in 2023. 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:

	2021 £'000	2020 £'000
Offices and warehouses	**1,253**	1,743
Vehicles	**2**	17
	1,255	1,760

Lease liabilities related to leases are split between current and non-current:

	2021 £'000	2020 £'000
Current	**774**	1,018
Non-current	**511**	889
	1,285	1,907

When measuring the lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate. The weighted-average rate applied to leases adopted in year is 1.35% (2020: 1.78%).

The movement in lease liabilities is as follows:

	2021 £'000	2020 £'000
Balance as at 1 September	**1,907**	–
Changes from financing cash flows		
Lease payments	**(1,057)**	(980)
	850	(980)
Other changes		
Interest on lease liabilities	**27**	42
New leases in the year	**442**	2,840
Foreign exchange	**(34)**	5
Balance at 31 August 2021	**1,285**	1,907

At the balance sheet date the Group had outstanding commitments for future minimum lease payments under non-cancellable leases, which fall due as follows:

	Minimum lease payments	
	2021 £'000	2020 £'000
Within one year	**778**	1,095
In the second to fifth years inclusive	**510**	1,209
After five years	**–**	–
	1,288	2,304

27 Trade and other payables

	2021 £'000	2020 £'000
Trade payables	**11,520**	13,415
Accrued expenses	**11,704**	9,616
Other taxation and social security payable	**449**	386
	23,673	23,417

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 2020	**347**	**747**	**1,519**	**2,613**
Provisions made during the year	**52**	**–**	**50**	**102**
Provisions released during the year	**–**	**–**	**(222)**	**(222)**
Provisions used during the year	**–**	**(332)**	**–**	**(332)**
At 31 August 2021	**399**	**415**	**1,347**	**2,161**
Current	**399**	**415**	**278**	**1,092**
Non-current	**–**	**–**	**1,069**	**1,069**
	399	**415**	**1,347**	**2,161**

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 as well as associated advisers' fees.

29 Share capital

	2021 Number	2020 Number
Issued and fully paid		
Ordinary shares of £0.001 each	**58,661,639**	58,111,639

	2021 £	2020 £
Issued and fully paid		
Ordinary shares of £0.001 each	**58,662**	58,112
	58,662	58,112

In the financial year, 550,000 shares were issued to the Employee Benefit Trust at a cost of £0.001 per share to satisfy grants vesting in future periods.

30 Other reserves

Share premium reserve

	2021 £'000	2020 £'000
Balance at 1 September	**115**	115
Issue of new shares	**–**	–
Balance at 31 August	**115**	115

Merger reserve

	2021 £'000	2020 £'000
Balance at 1 September	**14,595**	14,595
Balance at 31 August	**14,595**	14,595

On 4 December 2014, Focusrite plc obtained control of 100% of the share capital of 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 put to the merger reserve.

Merger difference reserve

	2021 £'000	2020 £'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 (plc) including the equity interests 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

	2021 £'000	2020 £'000
Balance at 1 September	**197**	92
Exchange differences on translating the net assets of foreign operations	**(726)**	105
Balance at 31 August	**(529)**	197

Exchange differences relating to the translation of the net assets and results of the Group's US, German and Hong Kong subsidiaries from its functional currency into the Group presentational functional currency are recognised directly in the translation reserve.

Hedging reserve

	2021 £'000	2020 £'000
Balance at 1 September	**220**	(152)
Gain on forward foreign exchange contracts designated and effective as a hedging instrument	**445**	459
Tax on hedging instrument	**–**	(87)
Transfer of deferred tax to deferred tax reserve	**51**	–
Balance at 31 August	**716**	220

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.

From 2021, tax on hedging instrument has been recorded in the deferred tax reserve (see note 25).

EBT reserve

	2021 £'000	2020 £'000
Balance at 1 September	**(1)**	(1)
Shares issued to the EBT	**1**	–
Shares from EBT exercised	**(1)**	–
Balance at 31 August	**(1)**	(1)

The EBT reserve arose when the Company issued equity share capital which it held in trust. 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

	2021 £'000	2020 £'000
Cash and bank balances per the balance sheet	**17,339**	14,975
Net cash per the cash flow statement	**17,339**	14,975

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

435,261 options over Focusrite plc's shares were exercised during the year ended 31 August 2021 (2020: 409,418). As at 31 August 2021, the total number of ordinary shares under option in Focusrite plc was 1,032,852 (2020: 1,523,547) of which 554,712 (2020: 359,483) 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 478,140 (2020: 1,164,064) 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 2021 was £10.02 (2020: £5.96). For the share options outstanding at the year end, the weighted average remaining contractual life was 8.3 years (2020: 7.6 years).

	2021		2020	
	Number of options	**Weighted average exercise price £**	Number of options	Weighted average exercise price £
Outstanding at start of period	**1,523,547**	**2.69**	1,713,198	2.15
Granted during the period:				
2018 PSP: senior employees excluding Executive Directors	**–**	**0.00**	66,708	0.00
2018 PSP: Executive Directors	**–**	**0.00**	82,918	0.00
2018 LTIP	**–**	**–**	168,400	6.44
2020 PSP: Executive Directors	**31,190**	**0.00**	–	–
2020 PSP: senior employees excluding Executive Directors	**47,169**	**0.00**	–	–
2021: Management shares	**13,337**	**0.00**	–	–
Exercised during the year:				
2014 EMI Scheme: other employees	**(53,323)**	**0.15**	(230,380)	1.05
2014 EMI: J Wilson	**–**	**–**	(133,334)	0.15
2015 EMI Scheme: other employees	**(116,498)**	**1.71**	–	–
2017 PSP: Executive Directors	**(126,240)**	**0.00**	–	–
2017 PSP: senior employees excluding Executive Directors	**(23,194)**	**0.00**	(37,733)	0.00
2018 LTIP	**(112,830)**	**3.94**	(7,971)	3.94
2021: Management shares	**(3,176)**	**0.00**	–	–
Cancelled during the period:				
2015 EMI Scheme: other employees	**(5,663)**	**1.71**	–	–
2018 PSP: Executive Directors	**(41,318)**	**0.00**	–	–
2018 PSP: senior employees excluding Executive Directors	**(12,758)**	**0.00**	–	–
2019 PSP: senior employees excluding Executive Directors	**(9,151)**	**0.00**	–	–
2019 PSP: Executive Directors	**(35,655)**	**0.00**	–	–
2018 LTIP	**(16,122)**	**3.94**	(75,948)	3.94
2019 LTIP	**(14,851)**	**5.10**	(22,311)	5.10
2020 LTIP	**(11,612)**	**6.45**	–	–
Outstanding at end of year	**1,032,852**	**3.12**	1,523,547	2.69
Exercisable at end of year	**32,223**	**3.14**	20,792	0.67

	2021 £'000	2020 £'000
Expense arising from share-based payment transactions	**973**	537

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	0.5-0.53%
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

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 £538,000 for the year ended 31 August 2021 (2020: £337,000). Contributions totalling £95,000 (2020: £79,000) 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

	2021 £'000	2020 £'000
Financial assets		
Amortised cost		
Cash and cash equivalents	**17,339**	14,975
Trade and other receivables	**11,782**	15,353
Designated cash flow hedge relationships		
Derivative financial assets designated and effective as cash flow hedging instruments	**716**	271
	29,837	30,599
Financial liabilities		
Amortised cost		
Trade and other payables	**12,028**	14,137
Bank loan (RCF) and arrangement fee	**(248)**	11,641
	11,780	25,778

The £0.3 million recorded 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. In previous periods it has been shown net with the loan amount, however as at 31 August 2021 no amount is drawn down against the RCF.

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.

34 Financial instruments continued
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	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000
USD	**2,785**	6,641	**12,486**	16,921
Euro	**1,718**	343	**9,886**	7,985
AUD	**–**	–	**110**	–
HKD	**–**	67	**142**	166
GBP	**7,277**	18,727	**7,213**	5,527
	11,780	25,778	**29,837**	30,599

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. The table indicates the increase in profit and equity resulting from a 10% strengthening of the foreign currency, and the corresponding decrease in profit and equity resulting from a 10% weakening of the foreign currency.

	Euro impact[1]		USD impact[2]	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000
Profit or loss	**817**	764	**970**	1,028

1 This is mainly attributable to the exposure outstanding on Euro net payables and receivables at the balance sheet date.
2 This is mainly attributable to the exposure to USD net payables and receivables at the balance sheet date.

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 hedge 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.

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:

	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**	**–**	**–**

	2020				
	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	271	271	271	–	–
Total	271	271	271	–	–

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
2021						
Non-interest-bearing	**17,339**	**–**	**–**	**–**	**–**	**17,339**
	17,339	**–**	**–**	**–**	**–**	**17,339**
2020						
Non-interest-bearing	14,975	–	–	–	–	14,975
	14,975	–	–	–	–	14,975

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
2021						
Non-interest-bearing	**–**	**–**	**–**	**(248)**	**–**	**(248)**
	–	**–**	**–**	**(248)**	**–**	**(248)**
2020						
Non-interest-bearing	–	–	–	11,641	–	11,641
	–	–	–	11,641	–	11,641

34 Financial instruments continued
The £0.3 million recorded 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. In previous periods it has been shown net with the loan amount, however as at 31 August 2021 no amount is drawn down against the RCF.

The movement in financial liabilities is shown below:

	2021 £'000	2020 £'000
Balance as at 1 September	**11,641**	–
Changes from financing cash flows		
Proceeds from loans and borrowings	**7,353**	36,000
Repayment of loans and borrowings	**(19,335)**	(24,000)
Payment of RCF arrangement fee	**–**	(372)
	(341)	11,628
Other changes		
Write-down of RCF	**93**	13
Balance at 31 August 2021	**(248)**	11,641

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 £40,000,000 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% + LIBOR on utilised funds and 0.4% + LIBOR 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 (includes 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 2021, the Company and its subsidiaries had no liabilities considered to be contingent.

36 Contingent assets

In early 2020, Focusrite became aware that the US import duty code on Scarlett interfaces was different from that used by its competitors for their interfaces. The effect was that the competitors were paying far less import duty than Focusrite. A legal opinion was obtained from a US lawyer that the code used by the competitors was valid. Therefore, the new code was used from that point on and this has been accepted by the US authorities.

The effect of using the new code was that there needed to be a retrospective correction for the duty paid prior to March 2020. The total rebate expected for the retrospective correction was $1.5 million; however, this is net of a payment of $1.0 million and a rebate of $2.5 million. To date, $1.2 million rebate has been received with a further $0.8 million of payments approved for rebate by US Customs. This revenue has been accrued for in these financial statements. The payment of $1.0 million has been provided for in these financial statements on account of this payment being probable. Both the duty refunds received to date, and the provision for payment of additional duties, have been included within cost of sales for consistency of treatment with the original cost.

The remaining rebate of $0.5 million will only be received when the US authorities have reviewed all of the retrospective paperwork submitted to confirm the change of code for that product for the last four years. Therefore, it will be treated as a contingent asset until confirmation has been received from the US authorities.

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.

	2021 **£'000**	2020 £'000
Short-term employee benefits	**2,570**	1,838
Share-based payments	**1,504**	296
Pension contributions	**74**	79
	4,148	2,213
Aggregate emoluments of the highest-paid Director	**550**	537

More details on the members of the Board can be found on page 56. 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 (2020: £19,750) and is considered to be at arm's length.

38 Post balance sheet events

During FY21, Focusrite Group commenced an exercise to reorganise the US-based entities held across the Group, consisting of Focusrite Group US (formally known as Focusrite Novation Inc), Martin Audio US LLC and ADAM Audio US, to form a single US entity called Focusrite Group US. As at 31 August 2021, these entities had changed ownership to be owned directly by Focusrite plc. As all investments were initially owned indirectly by Focusrite plc and all transactions are between members of the Group, there is no material impact to these financial statements.

As at 1 September 2021, these entities merged into one US entity, and from 2 September 2021 ownership changed from Focusrite plc to the Focusrite plc owned subsidiary Focusrite Investment Inc to ensure that all US entities are under common ownership. This will be completed through the issue of 7,404 additional shares in Focusrite Group US worth £6.6 million, and the issue of eight additional shares in Focusrite Investment Inc, again worth £6.6 million. As all transactions are between members of the Group, no material impact will be shown in these Group accounts.

As the reorganisation is only from a legal perspective there will be no change to the CGUs reported in these financial statements.

Company Balance Sheet
As at 31 August 2021

	Note	2021 £'000	2020 £'000
Assets			
Non-current assets			
Investment in subsidiaries	6	**61,090**	44,250
Trade and other receivables	7	**7,613**	13,359
Total fixed assets		**68,703**	57,609
Current assets			
Trade and other receivables	7	**18,868**	8,433
Deferred tax asset		**819**	–
Cash at bank and in hand		**111**	504
Total current assets		**19,798**	8,937
Creditors: amounts falling due within one year			
Creditors	8	**(44,331)**	(23,426)
Net current assets		**(24,533)**	(14,489)
Total assets less current liabilities		**44,170**	43,120
Creditors: amounts falling due later than one year			
Bank loan	9	**248**	(11,641)
Net assets		**44,418**	31,479
Capital and reserves			
Share capital	10	**59**	58
Share premium		**115**	115
Merger reserve	11	**14,595**	14,595
EBT reserve	12	**(1)**	(1)
Non-distributable reserve	13	**3,650**	–
Retained earnings	13	**26,000**	16,712
Total equity and shareholders' funds		**44,418**	31,479

The financial statements were approved by the Board of Directors and authorised for issue on 15 November 2021. They were signed on its behalf by:

Sally McKone
Chief Financial Officer

Registered number 9312676

The accompanying notes on pages 124 to 129 form part of these financial statements.

Company Statement of Changes in Equity

For the year ended 31 August 2021

	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 2019	58	115	14,595	(1)	–	20,212	34,979
Loss for the period	–	–	–	–	–	(2,017)	(2,017)
Dividends	–	–	–	–	–	(2,251)	(2,251)
Premium on shares issued in lieu of bonuses	–	–	–	–	–	(21)	(21)
Share-based payment charge	–	–	–	–	–	537	537
Shares from EBT exercised	–	–	–	–	–	252	252
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**

The accompanying notes on pages 124 to 129 form part of these financial statements.

Notes to the Company Accounts
For the year ended 31 August 2021

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 2021 were authorised for issue by the Board of Directors on 15 November 2021 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 2021.

2 Basis of preparation and summary of significant accounting policies
Basis of preparation
These financial statements were prepared in accordance with FRS 101.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a cash flow statement and related notes;
- disclosures in respect of transactions with wholly owned subsidiaries;
- disclosures in respect of capital management;
- 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.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 August 2021.

Going concern
The Company's business activities and position in the market are described in the Strategic Report (pages 1 to 55). The Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertainties within the global economy. The Group has considerable financial resources, recurring revenue streams and a broad spread of customers (see note 3 of the Group financial statements for more detail of the going concern assessment). As a consequence of these factors and having reviewed the forecasts for the 12 months post approval date, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a minimum of the 12-month period the forecasts cover. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements. Further detail is contained in the Strategic Report on pages 1 to 55.

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 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.

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

	2021 £'000	2020 £'000
Salaries, bonuses and other employee benefits	**1,424**	1,499
Social security costs	**384**	166
Pension costs	**57**	65
	1,865	1,730

During the year, retirement benefits were accruing to three Directors (2020: two) in respect of defined contribution pension schemes. The highest paid Director received remuneration (excluding the value of vested share options) of £550,000 (2020: £537,000).

The value of the Company's contributions paid to a defined contribution pension scheme in respect of the highest paid Director amounted to £nil (2020: £nil). During the year, 135,898 share options were exercised by Directors (2020: 133,334), resulting in a gain of £1,318,000 (2020: £833,000).

Notes to the Company Accounts continued
For the year ended 31 August 2021

3 Directors' remuneration continued
The Directors' remuneration for the year including vested share options was as follows:

Executive Directors		Salary/fees £'000	Other taxable benefits £'000	Annual bonus £'000	Joining bonus £'000	Pension contribution £'000	Total £'000
Tim Carroll[1]	FY20	285	6	342	–	34	667
	FY21	**291**	**3**	**363**	**–**	**38**	**695**
Jeremy Wilson[2]	FY20	215	2	215	–	28	460
	FY21	**122**	**2**	**122**	**–**	**17**	**263**
Sally McKone[3]	FY20	–	–	–	–	–	–
	FY21	**114**	**–**	**143**	**170**	**17**	**444**
Phil Dudderidge	FY20	182	5	–	–	–	187
	FY21	**186**	**5**	**–**	**–**	**–**	**191**
Non-executive Directors							
David Bezem[4]	FY20	41	–	–	–	–	41
	FY21	**42**	**–**	**–**	**–**	**–**	**42**
Paul Dean[4]	FY20	41	–	–	–	–	41
	FY21	**42**	**–**	**–**	**–**	**–**	**42**
Naomi Climer[5]	FY20	36	–	–	–	–	36
	FY21	**37**	**–**	**–**	**–**	**–**	**37**

1 The bonus for Tim Carroll comprises £218,025 paid in cash (FY20: £228,000), £72,675 taken as shares (FY20: £57,000) and £72,675 in the form of matching shares (FY20: £57,000). 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, and Tim Carroll elected to use £nil (FY20: £2,629) of this in respect to leasing a car.
2 The bonus for Jeremy Wilson comprises £122,301 paid in cash (FY20: £215,000), £nil taken as shares (FY20: £nil) and £nil in the form of matching shares (FY20: £nil). 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. Jeremy Wilson left Focusrite Group on 19 March 2021 and his bonus has been calculated pro-rata for the period before he resigned.
3 The bonus for Sally McKone comprises £85,500 paid in cash, £28,500 taken as shares and £28,500 in the form of matching shares. The joining bonus comprises £169,800 paid in cash in compensation for annual bonus forfeited by leaving former employer. Sally McKone joined Focusrite Group on 1 March 2021 and her bonus has been calculated pro-rata for the period from appointment to the end of FY21.
4 The remuneration for both David Bezem and Paul Dean comprises a basic fee of £36,500 per annum for their roles as Non-executive Directors of the Group and an additional £5,000 per annum for their roles as Chairs of Board Committees.
5 Naomi Climer's basic fee for her role as Non-executive Director of the Group was £36,500.

4 Staff costs
Staff costs, including Directors' remuneration, were as follows:

	2021 £'000	2020 £'000
Wages and salaries	**1,475**	1,561
Social security costs	**389**	171
Other pension costs	**61**	66
	1,925	1,798

The average monthly number of employees, including the Directors, during the year was as follows:

	2021 Number	2020 Number
Management and administration	**7**	7

5 Dividends
The following equity dividends have been declared:

	2021	2020
Dividend per qualifying ordinary share	**5.2p**	4.2p

6 Investments in subsidiaries

	2021 £'000	2020 £'000
At 1 September	**44,250**	29,912
Acquired as business combination (ADAM Audio)	**-**	(262)
Acquired as business combination (Martin Audio)	**-**	24,800
Impairment on investment (Martin Audio)	**-**	(10,200)
Reversal of impairment on investment (Martin Audio)	**10,200**	–
Acquired as part of reorganisation of US entities	**6,640**	–
At 31 August	**61,090**	44,250

In FY20 a £10,200,000 impairment was recognised against the investment of 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 include new revenue streams generated in FY21, which will be reoccurring within Martin Audio, it is considered that this impairment is no longer required and so has been reversed.

The FY21 forecast uses cash flow projections based on financial budgets approved by management covering a three-year period and a consistent growth rate in the two financial years following the management forecasts leading to an applied CAGR of 13% over the 5-year period. A pre-tax discount rate of 12.8% has been assumed. Cash flows beyond that five-year period have been extrapolated using a perpetual 1% growth rate based on IMF estimates of long-term inflation.

The investment as a result of reorganisation of US entities, has arisen from distribution of ADAM Audio US, Martin Audio LLC and Focusrite Group US (formally known as Focusrite Novation Inc.) up to direct ownership by plc. More information is provided in Note 14 Post Balance Sheet Events.

The investments in subsidiaries comprise:

Name	Country of registration or incorporation	Principal activity	Class of shares	2021 %	2020 %
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 for more details.

Notes to the Company Accounts continued
For the year ended 31 August 2021

7 Trade and other receivables

Debtors due in less than one year	2021 £'000	2020 £'000
Other debtors	**718**	506
Prepayments	**24**	23
Amounts owed by Group undertakings	**18,126**	7,904
	18,868	8,433

The amounts owed by Group undertakings are repayable on demand. These amounts include loans made to ADAM Audio, Martin Audio and Focusrite Investments Inc totalling £18,126,000 (2020: £4,996,000). These loans have been made on an arm's length basis and interest is payable at a rate of 4%.

Debtors due in more than one year	2021 £'000	2020 £'000
Amounts owed by Group undertakings	**7,613**	13,359

The amounts owed by Group undertakings are repayable on demand, however management do not expect repayment within one year. These amounts include loans made to Martin Audio totalling £7,613,000 (2020: £13,359,000). These loans have been made on an arm's length basis and interest is payable at a rate of 4%.

8 Creditors

	2021 £'000	2020 £'000
Other creditors	**2,179**	1,789
Amounts due to Group undertakings	**42,152**	21,637
	44,331	23,426

The amounts owed to Group undertakings are repayable on demand.

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
2021						
Non-interest-bearing	**–**	**–**	**–**	**(248)**	**–**	**(248)**
	–	**–**	**–**	**(248)**	**–**	**(248)**
2020						
Non-interest-bearing	–	–	–	11,641	–	11,641
	–	–	–	11,641	–	11,641

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% + LIBOR on utilised funds and 0.4% + LIBOR on unutilised funds.

The £0.3 million recorded 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. In previous periods it has been shown net with the loan amount, however as at 31 August 2021 no amount is drawn down against the RCF.

10 Share capital

	2021 Number	2020 Number
Issued and fully paid		
Ordinary shares of £0.001 each	**58,661,639**	58,111,639

	2021 £	2020 £
Issued and fully paid		
Ordinary shares of £0.001 each	**58,662**	58,112
	58,662	58,112

The Company has one class of ordinary shares which carries no right to fixed income. In the financial year, 550,000 shares were issued to the Employee Benefit Trust at a cost of £0.001 per share to satisfy grants vesting in future periods.

11 Merger reserve

	2021 £'000	2020 £'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

	2021 £'000	2020 £'000
At 1 September	**(1)**	(1)
Shares issued to EBT	**1**	–
At 31 August	**–**	(1)

13 Retained earnings

	2021 £'000	2020 £'000
At 1 September	**16,712**	20,212
Net profit for the period	**8,984**	(2,017)
Dividend	**(2,554)**	(2,251)
Premium on shares issued in lieu of bonuses	**60**	(21)
Share-based payment charge	**634**	537
Shares from EBT exercised	**660**	252
Share-based payment – current tax deduction in excess of remuneration expense	**718**	–
Share-based payment – deferred tax deduction in excess of remuneration expense	**786**	–
At 31 August	**26,000**	16,712

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 gain for the year was £8,984,000 (2020: £2,017,000 loss) which includes £10,200,000 reversal of impairment on the cost of investments recorded in 2020.

£3,650,000 dividend received on transfer of US entities to Focusrite plc has been treated as non-distributable within capital and reserves.

14 Post balance sheet event

During FY21, Focusrite Group commenced an exercise to reorganise the US based entities held across the Group, consisting of Focusrite Group US (formally known as Focusrite Novation Inc), Martin Audio US LLC and ADAM Audio US to form a single US entity called Focusrite Group US. As at the 31 August 2021, these entities had changed ownership to be owned directly by Focusrite plc. These Company Accounts therefore show the investment in these US subsidiaries by Focusrite plc, with a corresponding dividend received of £3.7 million, and a reduction in the loan owed by Martin Audio of £3.0 million. The dividends are in specie, and as such the dividend received will not be distributable. A non-distributable reserve has been set up to separate this from distributable reserves. As all investments were initially owned indirectly by Focusrite plc and all transactions are between members of the Group, there is no other material impact to these Company accounts.

As at the 1 September 2021, these entities merged into one US entity, and from the 2 September 2021 ownership will change from Focusrite plc to the Focusrite plc owned subsidiary Focusrite Investment Inc to ensure that all US entities are under common ownership. This will be completed through the issue of 7,404 additional shares in Focusrite Group US worth £6.7 million, and the issue of 8 additional shares in Focusrite Investment Inc, again worth £6.7 million. The future impact to these company accounts will be the reduction in investment in Focusrite Group US of £6.7 million, and instead reflect the increased investment in Focusrite Investment Inc. All entities under the reorganisation remain wholly owned subsidiaries of Focusrite plc.

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