Focusrite

Enriching lives through music

Focusrite plc
Annual Report 2019

Focusrite plc is a global music and audio products group that develops and markets proprietary hardware and software products. Our portfolio of products is used by both audio professionals and amateurs alike in order to enhance their creative process.

Our Brands. Our People. Our Why.

Our family of brands stand united behind a single purpose; to enrich lives through music. At the heart of our brands are our people: a like-minded, eclectic family of music lovers brought together by a common passion; music and creativity.

We also share a common mission; to remove barriers to creativity. We believe in the power of music to do good in this world and know how we can make a difference. There are pointless barriers stopping people from realising their own creativity. Not just technological barriers, but geographical, social, economic, political and more. As a team we aim to remove them, one by one.

www.focusriteplc.com

A Perfect fit

ADAM AUDIO

This is our first major acquisition since going public in 2014; a clear demonstration of our careful consideration around which brands should join in our mission to ‘Remove Barriers to Creativity’.

Find out how ADAM Audio is a perfect fit – Page 18

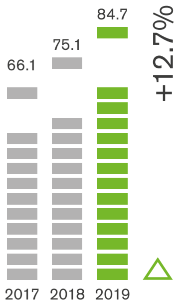
Contents

Financial highlights

The Group has grown to a new record revenue, profit and cash in FY19. We continue to innovate and lead in our core and our growth strategy continues to yield.

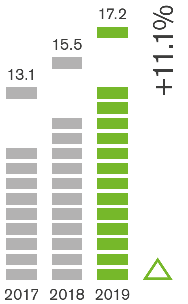
Group Revenue (£m)
(Constant currency[1]: +7.8%)

£84.7m



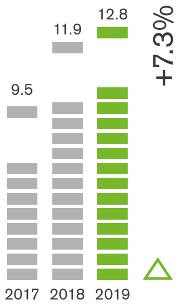
EBITDA[2] (£m)

£17.2m



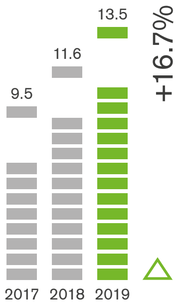
Operating Profit (£m)

£12.8m



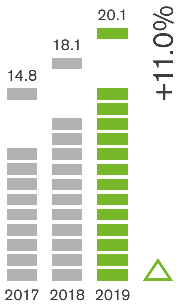
Adjusted[3] operating profit
(p)

£13.5m



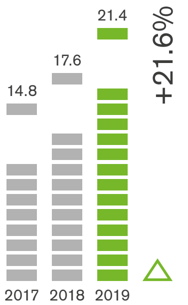
Diluted earnings per share

20.1p



Adjusted[3] diluted earnings per share

21.4p

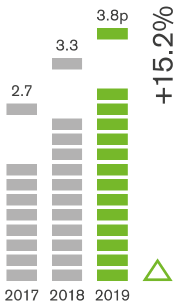


Underlying free cashflow
* after the purchase of ADAM Audio for £16.2m

£10.2m

Proposed total dividend

3.8p



Operational highlights

- Focusrite revenue up by 21.5% driven by the Scarlett 3rd Generation range.
- Novation revenue down by 11.7% as Launchpad 2nd Generation reached the end of its lifecycle.
- All major geographic regions grew in revenue: North America was up by 11.1%; Europe, Middle East and Africa by 14.6%; and the Rest of World by 12.5%.
- 10 new hardware products and numerous software/firmware updates launched over the year.
- Acquisition of ADAM Audio completed in July 2019 for €18.0 million from existing cash resources.

1 Constant currency revenue growth is calculated by taking the GBP value of FY19 revenue, converting to FY18 annual average exchange rates and comparing with the reported revenue for FY18. In addition, all foreign exchange movements disclosed in revenue are excluded from both years.

2 Comprising earnings adjusted for interest, taxation, depreciation, amortisation and non-underlying items (see table reconciliation on page 22).

3 Adjusted for non-underlying items (see note 14 and table reconciliation on page 22).

Focusrite at a Glance

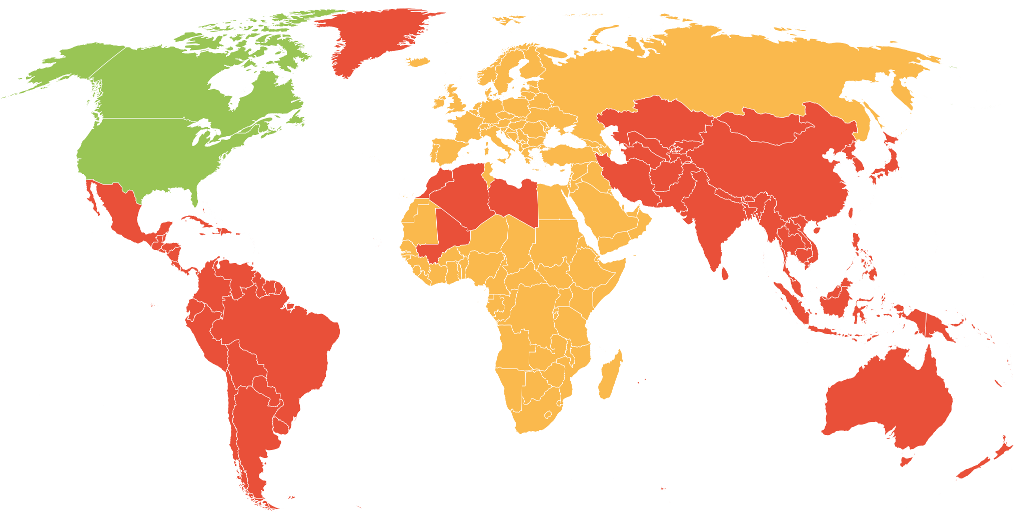
A worldwide leader in music and audio products

The Group's products are sold globally through distributors, retailers and our e-commerce platform. We utilise an effective mix of retailers – online and 'bricks and mortar' distributors in areas where localisation is a factor, a hybrid approach in the USA utilising a wholesale distributor with our own demand generation team, and direct business to consumer with our e-commerce store and in-app software purchases. Over 800,000 physical products were sold last year. Our music creation apps have now been downloaded 10.5 million times (up from 9.5 million as at 31 August 2018), with over 840,000 in-app customer transactions. Our suppliers are chiefly based in China and Malaysia, and we use third-party logistics support. We employ over 300 people in the UK, USA, Germany and Hong Kong.

We have five reporting segments being Focusrite, Focusrite Pro, Novation, ADAM Audio and Distribution. All relate to sales of proprietary products except for Distribution, which relates to the sale of products manufactured by other companies.

We have five brands which each play unique roles. These comprise Focusrite, Focusrite Pro, Novation (which includes both the Novation and Ampify brands) and ADAM Audio.

Our Global Coverage



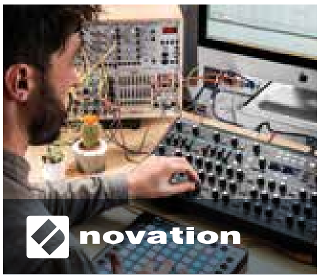
Revenue by Geography

Europe, Middle East and Africa	40%
North America	43%
Rest of the World	17%

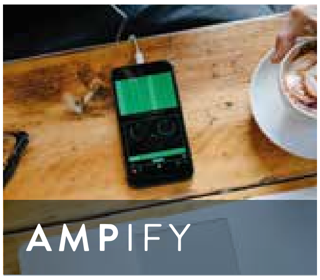
Our Brands

Focusrite was born out of a request from Beatles producer Sir George Martin, ultimately resulting in what is widely regarded as sonically one of the finest studio consoles ever made. But the recording world was already changing. Software had kicked off the democratisation of music production and Focusrite shifted its focus to home studios, removing the financial barrier to studio-quality recordings. Digidesign, the creator of the world's leading music software 'Pro Tools', called on Focusrite to deliver what became known as 'MBox'; the audio interface that brought Pro Tools to the masses. This was Focusrite's springboard into the world of interfaces, **which it now leads globally, with audio interfaces for every creative mind, from budding songwriter to commercial producer and beyond.** The brand's reputation for quality and reliability has been hard-earned. We now work tirelessly to uphold it, investing in industry-leading quality assurance, customer care and software stability to ensure Focusrite remains a name music-makers can trust.

The Focusrite Pro team was formed in 2017, born out of the desire to serve the needs of commercial operations better. The Pro team is **committed to creating a world where a future-proofed environment and improved workflows give audio professionals the creative freedom to get the job done.** By removing unnecessary technical steps in their workflow we empower them to enrich the lives of others. Leading the world in high channel count, high quality sound across an IP network, the RedNet® range is transforming the shape of multiple professional audio markets. Working with Focusrite Pro's highly skilled and industry-experienced team, clients from recording and broadcasting studios, to houses of worship and audio for film and television can all realise the full potential and maximum return on investment from their audio systems.



Novation has always been on a mission; not to preserve sound, but to sculpt it. From the introduction of the iconic Bass Station back in 1992, Novation has played its part in shaping the sound of electronic music and even the culture itself. It **enables electronic music makers to lose themselves on a music-making journey that need never end.** From the ubiquitous Launchpad 8x8 grid behind over a billion YouTube views, to synthesisers behind the signature sounds of a constantly evolving musical landscape, Novation is shaping the music and art of tomorrow.



Born out of talent from the Novation team and based in the Tileyard Studios creative hub in London, Ampify holds true to our fundamental purpose by **creating music-making apps so the lives of a new generation can be enriched on a creative musical journey.** With over 10.5 million downloads of its apps so far, Ampify has already removed both the real and apparent barriers of today's music technology. Not confined by ingrained workflows, Ampify has leapt ahead into a new paradigm and is redefining how music will be made tomorrow.

In the same year as its acquisition, ADAM Audio is also celebrating its 20th anniversary; two decades of technological innovation in the field of loudspeaker technology. ADAM Audio was founded in March 1999, instantly making its mark on the industry with its ribbon-tweeter technology. Now **undeniably leaders in the field of electroacoustics, ADAM Audio's A7Xs and S3s are a standard in recording spaces across the globe.** ADAM Audio addresses the same range of customers as Focusrite, from the budding musician to the audio professional and commercial facilities. The full product portfolio includes its T, AX, and S Series loudspeakers, as well as subwoofer and headphone ranges. ADAM Audio and Focusrite are perfectly aligned, with a shared mission to create the most holistic creative experience for all audio creatives. We look forward to a third decade of creating seamlessly integrated, future-oriented and professional monitoring solutions together.

Society is changing. People expect more from the brands they relate to. Nowhere is this more true than in the mind of the creative person, often slow to trust and always hungry for meaning in the world around them. With its rich past and clear purpose, the Focusrite Group is well placed to thrive in this changing world.

Customers

Our end-users are segmented based on the extent music making forms their character; how significant a role music creation plays in shaping their daily attitudes, behaviours and the environment in which they create.

New Creator

Market size:

USD225m–USD325m

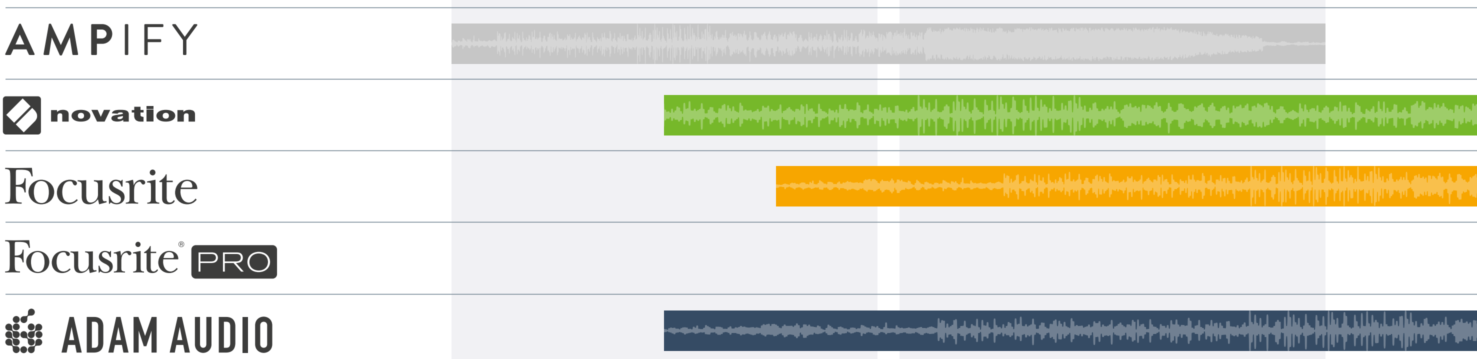
The new music creator loves music. They talk about it all the time. Inspired by this love for music, they want to start doing it for themselves, but don't know what that looks like. They believe making music will be fun. Something they could really get into. Making it could bring them even closer to the music they love. Excited and impatient, they want fast results and are eager to share what they've made with friends.

Passionate Maker

USD250m–USD300m

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.

Brand Alignment



Serious Aspiring Producer

USD100–USD150m

They aspire to be recognised as a music producer. They feel a sense of achievement when they complete a commercially viable production. Actively networking within groups of like-minded people, they're constantly honing their skills. They dream of one day quitting their day job and earning a living in music production. **They're committed to a daily music routine with self-imposed deadlines**. Any new purchases must contribute to the refinement of their music production process.

The Music Master

USD100m–USD150m

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

USD150m–USD200m

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.

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.

Chairman's Statement

I am very pleased to introduce the 2019 Final Results of Focusrite plc…

"…has once again been a record year for the Company."

Phil Dudderidge
Founder and Executive Chairman

I am very pleased to introduce the 2019 Final Results of Focusrite plc for the year ended 31 August 2019 in what has once again been a record year for the Company.

The Focusrite Group was established in 1989 and has become a global leader in recording hardware technology. Under the Focusrite brand, and working with Avid Pro Tools and Ableton Live recording software brands, we have gone from strength to strength. Since the acquisition of Novation in 2004, the Group has also grown to become a leading brand in the electronic music creation world.

Focusrite plc was admitted to the AIM market in December 2014 and at that time we envisaged not only continued organic growth but also growth through acquisition of businesses that would bring established technical competence, brand recognition and market share in product categories adjacent to those of the Focusrite and Novation brands.

Patience was rewarded in July 2019 with the acquisition of the Berlin-based ADAM Audio brand of monitor loudspeakers, used by the very same kind of purchaser of Focusrite and Novation products. With a twenty-year history of recording studio use by professional recording engineers and producers the brand has a well-deserved global reputation for quality. Recent years have seen the product range extended to meet the affordability-with-quality criteria sought by the wider market (similarly addressed by the Focusrite Scarlett interface range), while maintaining its market share with professional products at higher price points. Notably this profitable acquisition was achieved from cash generated since the IPO.

On that note, the Group continues to be highly cash generative, with net cash of £14.9 million at the year end, after the acquisition of ADAM Audio.

Our business successes are predicated on the commitment of over 300 people around the world. In addition to the usual head office administrative activities, the 183 UK-based employees are focused on product development, customer support, sales and marketing. Our subsidiary, Focusrite Novation Inc. based in Los Angeles, supports the US market with marketing, customer support and retail channel communications. Similarly, other regional representatives in Germany, Hong Kong and Mexico (for Latin America) support their local regions with sales management, marketing and customer support.

Once again I would like to take this opportunity to acknowledge all our employees for their commitment and skills, each of whom makes an essential contribution to our success. Permanent employees are participants in a share option scheme. This has proved rewarding and incentivising for employees who are motivated to see the Group prosper for the benefit of all shareholders, themselves included.

The Focusrite plc Board aspires to high standards of corporate governance and I would like to take this opportunity to thank our Non-Executive Directors for their wise guidance and counsel and for ensuring that the Company meets or exceeds its regulatory obligations as a quoted company. I would also like to thank our CEO, Tim Carroll, and CFO, Jeremy Wilson, for their outstanding leadership and commitment to the success of the business.

Finally, I would also like to acknowledge our excellent commercial partners. We have three principal suppliers that manufacture our products to the highest standards of quality and reliability; our logistics partners that reliably handle physical distribution from factory to local distribution warehouses and onwards to our customers; and our third-party distributors who market our products in their own national territories.

We look forward to the coming years with enthusiasm for our industry, our customers, our employees, our partners around the world, and with an appreciation of our shareholders who invest in our vision of constant innovation and growth, as we continue ‘Enriching Lives Through Music’.

Phil Dudderidge

Founder and Executive Chairman

“I would like to take this opportunity to acknowledge all our employees for their commitment and skills, each of whom makes an essential contribution to our success.”

Chief Executive's Statement

We continue to execute on our growth strategy

£84.7m

Group Revenue

"Another year of financial success"

TIM CARROLL
Chief Executive Officer

Introduction

I am very proud to present another set of positive results, following an extremely busy year for the Group, with both top line revenue and profit growing during FY19 and the successful completion of our first major acquisition since the IPO.

During FY19, we remained focused on executing our growth strategy whilst ensuring the Group was taking the correct and necessary measures to mitigate any potential disruption from the numerous macro-economic issues at hand. We also delivered on another core part of our strategy, which is to continue investing in our people, tools and processes to ensure that our roadmap pipeline remains robust; our infrastructure is prepared for future business opportunities and our collective actions stay tightly aligned to our mission, vision and purpose.

Our employee base is now over 300 strong and we continue to grow and strengthen our talent in all divisions of the business across our multiple offices, which includes locations in High Wycombe, London, Berlin, Los Angeles, Hong Kong, Mexico and Nashville. We are fortunate to have so many employees globally that have a real passion for music and audio; many being musicians, audio engineers, or DJs using our products in real world environments every week. It continues to be a great pleasure and privilege to help guide and lead them and I thank them for their hard work and dedication.

Our operations

The Group's products are sold in approximately 160 territories and countries all over the world. We utilise an effective mix of retailers – online and 'bricks and mortar' locations, distributors in select areas and direct business to consumer sales via our own e-commerce store and in-app software purchases.

Last year we sold over 800,000 physical products to end-users and our music creation apps were downloaded over 1.2 million times during the year, with over 840,000 in-app customer transactions. Our manufacturing partners are located in South China and Malaysia and we use a variety of third-party logistics support.

Our market

Audio production continues to be an attractive market for technology companies like the Focusrite Group. Our products and solutions are key components for many personal and professional audio recording customers and musicians. Our technologies are designed to break down barriers to creativity, versus being impediments to the process. Alongside that, we continually strive to make audio production technology easier to use and more accessible to a larger addressable market.

While we lead the market in many product categories, we always seek ways to grow our core business while exploiting opportunities to expand into adjacent product categories that would make commercial and strategic sense for the business. The Group is pursuing these opportunities with organic development as well as by acquisition.

We constantly update our research on the audio production market: looking for new trends in music and audio production, exploring changes in customer behaviours and pain points, evolving delivery formats and emerging and adjacent technologies. Additionally, we continuously update our customer personas.

We have identified ‘The New Creator’, a customer who might have little or no music or audio recording knowledge; the ‘Passionate Maker’, someone who may or may not play a traditional instrument but wants to make ‘good’ music or content; the ‘Serious Aspiring Producer’, for whom music and audio is more than just a hobby; and the ‘Master’ and ‘Facility’ personas – highly skilled musicians, audio engineers, or business entities focused on audio production.

Operating review of another record year

Whilst executing on our growth strategy, we are conscious that we must continue to manage our cost base carefully and remain focused on cash generation. In this regard we had a successful year. Revenue for the Group grew by 12.7% and within this, ADAM Audio, our first major acquisition since the IPO, contributed approximately £1.8 million in the six weeks since acquisition. The remainder of the Group, excluding ADAM Audio, had revenue of £82.9 million, growing by 10.4% (5.6% at constant exchange rates) from £75.1 million in FY18. EBITDA increased 11.1% over the FY18 result.

This positive performance has been driven by a number of factors. Most notably this year new product introductions, including our third generation of Scarlett audio interfaces, which have resonated well with customers and provided an incremental increase in revenue. We are also witnessing positive results from many of our investments in IT infrastructure that were implemented over the past few years. These include enhanced websites, modernised social media demand generation, localised online experiences and new technologies focused on simplifying the ‘out of box’ experience. All of these have resulted in increased customer and sales channel satisfaction illustrated by our top net promoter scores (‘NPS’) for individual products.

Throughout this year we have witnessed several events, namely ongoing Brexit negotiations and the imposition of US tariffs, that require accommodating to ensure the business is well prepared to mitigate any possible associated effects. We have spent considerable time weighing options and taking actions to protect the profitability of the business. We are confident that we are well prepared for these events and further comment is included in the section on Principal Risks and Uncertainties.

The purchase of ADAM Audio

In July, we were very proud to announce our first major acquisition for the Group since the IPO, Berlin-based ADAM Audio for a total consideration of €18.0 million (£16.2 million), funded in its entirety by cash. ADAM Audio is a leading developer and global distributor of professional studio monitor loudspeaker products, which are well-aligned to our existing customer base. The business is growing and profitable and early indicators are that it is a good fit. We welcome the ADAM Audio team and look forward to them being a part of the Group.

Our criteria for acquisition candidates remains very specific. We are looking for companies with products and solutions that strategically fit into our growth strategy, with brand equity that is recognised and respected globally, strong financials and with a corporate culture that is similar to that of Focusrite. ADAM Audio had all of these characteristics and looks set to be a powerful new division for the Group.

We continue to explore other similar opportunities that would allow us to execute further on expanding our business as defined by our stated growth strategy.

Segmental Review

Focusrite

Within the Focusrite business, which consists of our award-winning Scarlett™ and Clarett™ lines of audio interfaces, revenue increased by 21.5%. These interfaces are used by a wide range of customers for numerous audio applications including music creation, spoken word mediums such as podcasting, and for streaming audio in real time environments such as gaming. The customer base runs from the first time buyer/hobbyist to the aspiring professional content creator.

Within the financial year, we introduced our third generation of Scarlett interfaces, which included enhanced hardware and software features that have received numerous accolades from our reseller and end user communities. Additionally, the new generation of Scarlett products bring to market a much improved ‘out of box’ experience that makes the overall initial set-up and journey towards making music for the first time much more fluid and easy. Scarlett remains the leading audio interface in the sub $500 global market.

The Clarett range continues to set new price/performance standards in our mid-range interface offerings. Created for both the aspiring and professional recordist, Clarett has disrupted the market with a price to performance mix that is unparalleled in the industry. Clarett comes bundled with a different set of software IP to match the specific customer personas for whom it is intended, winning several distinguished industry awards this past year including best overall audio interface in ‘Sound on Sound’, a leading industry magazine and online publication.

Chief Executive's Statement continued

"We sold approximately 800,000 physical products to end-users last year, and our music creation apps were downloaded over 1.2 million times with over 840,000 in-app customer transactions."

Focusrite Pro

The Focusrite Pro division represents a product portfolio consisting of three Focusrite ranges: RedNet™, Red™ and ISA™. RedNet employs 'audio over IP' technology that allows end users and facilities to deploy audio across great distances and with a wide range of scale with high quality resolution. This technology and the full range of RedNet products continues to be adopted in the post-production, education, installed sound and broadcast markets. Red, our professional line of individual audio interfaces, is a range of products that allows connectivity across multiple formats. ISA, which includes analogue mic preamps and analogue audio processing, is based on our legacy Focusrite console signal path. For this fiscal year, the Focusrite Pro segment revenue declined by 1.2%. Within this, RedNet grew 4% year over year while both Red and ISA declined as they are mainly comprised of older products that are nearing the end of their product lifecycle.

Novation

The Novation business is all about the creation and production of electronic music. Electronic music and its many genres continue to democratise the art of music and Novation offers solutions across a wide spectrum of software and hardware. The portfolio has solutions for beginners all the way through to professionals. Several of our core products in the Novation portfolio were approaching the end of their lifecycle in FY19 and, as a result, the entire category was, as expected, down 11.7% year over year.

Launchpad™, our grid-based controller for both creating and performing electronic music continues to be a powerful and widely accepted creation and performance tool. Two of the three products that make up the current range were at the end of their lifecycle and have subsequently been replaced in the period since the year end. We continue to refine the feature set, including software and overall user journey and 'out of box' experience, to ensure Launchpad is well adapted to cater to our professional customers as well as new users.

Our Launchkey™ family of keyboard controllers grew year-on-year by 13%. With an intuitive feature-set and extensive, integrated control features with top music-making software such as Ableton Live, Launchkey delivers a differentiated features set that appeals to many music makers and performers.

Our family of professional synthesisers complete the Novation family of products. Synthesisers have been core to the Novation brand since inception and have developed a reputation as cutting-edge instruments that bring a unique palette of sounds and colour to an artist's production. At the very end of the year, we introduced a new flagship synthesiser, Summit, built on the core technology from our FY18 release of Peak™. Summit™ just began shipping in small quantities at the very end of our fiscal year and demand and feedback from the community is very positive.

Ampify

Ampify develops powerful yet brilliantly simple music creation tools for new creators. Requiring no more than an iOS device, our apps allow anyone to create amazing music tracks in a wide variety of styles. Our apps consistently rank in the top ten for music creation tools on Apple's app store and are currently included on some products displayed in Apple stores worldwide. We are extremely proud that our apps have now been downloaded over 10.5 million times and this is an indication of the strength not only of our software products but the size of the market opportunity.

We are investing substantially in Ampify, as we aim to grow the Group's own software capability and 'leverage' software to further our ability to enable creative workflows for users at all levels. We look to introduce our first cross platform music creation platform in the first half of this year.

ADAM Audio

The Group bought Pro Audio Beteiligungs GmbH on 16 July 2019. This comprised ADAM Audio GmbH in Germany and ADAM Audio North America Inc in US. In the 2018 calendar year, the business had revenue of €12.9 million leading to an adjusted EBITDA of €1.7 million and reported operating profit of €1.0 million. In the period between the acquisition and 31 August 2019, ADAM Audio generated revenue of £1.8 million and EBITDA of £0.2 million, which are included in these financial results.

ADAM Audio fits in with our strategy and our acquisition criteria very well and we are delighted to have completed this acquisition. In particular, we are enjoying working with the team at ADAM and we have high hopes moving forward.

Distribution

Focusrite continues to distribute some third party products in the UK. These products are sold to the same reseller channel as our own branded products and are closely associated with our core markets.

Geographic overview

I am pleased to report that our success this year was global and sales in all our major regions grew. North America finished with a 11.1% rise in revenue when compared with last year. Europe, Middle East and Africa experienced 14.6% growth. Rest of World finished the year with 12.5% year-on-year growth.

North America

The US market, which accounts for approximately 43% of total Group revenue, grew by 11.1%. In this past year, we have responded to the ongoing US-China tariff dispute with a combination of actions. On our products impacted by the tariffs, we have raised prices to protect our profits. Overall, we saw no real impact on demand for our Focusrite and Focusrite Pro products, but some impact on Novation products. Furthermore, we have moved US production for our Scarlett range to a new facility in Malaysia. We continue to invest in our US demand generation and customer support team, and now have an office in Nashville, Tennessee for ADAM Audio.

Europe, Middle East and Africa ('EMEA')

EMEA, which represents approximately 40% of Group revenue, also had a successful year growing by 14.6%. Including the UK and mainland Europe, the region comprises direct resellers, distributors and our own e-store. We consistently refine our 'go to market' approach and look for the right balance of both direct reseller and distribution routes across the region.

Rest of the World

The Rest of the World region comprises 17% of Group revenue and grew by 12.5% over the prior year. Within this, Asia Pacific had a good year with 10% growth. We continue to invest in people for the region and our Hong Kong office is now fully functional and integrated with our Company systems, including local and 'follow the sun' customer support.

Latin America remains a region of significant interest to us and we believe it has substantial growth potential. We are enthusiastic about our future business and, despite a number of economic problems in several key regions, continue to pursue our plan of more localised experiences, in country field personnel and a more direct contact with the user base. Our two key hires from last year have settled in well and have made progress in navigating the many issues Latin America faced this past year.

Growth drivers

Innovation continues to be a major focus for us and a key driver of growth. We continue to spend 6–7% of revenue on R&D to provide a constant stream of new products as well as updates and new options for existing products.

During the year we launched ten new hardware products and numerous software/firmware updates to expand and enhance our product offerings. All of these releases were focused on specific customer personas and tightly aligned with our growth strategy. Some releases were next generation versions of existing products, such as the Scarlett 3rd Generation, while others, such as Summit, were entirely new products. In every instance, special focus was put on improving the 'out of box' experience to ensure our customers get up and running quickly with minimal technical burden. Feedback from the consumer, retailer and distribution channels continue to be positive and acceptance so far has been very pleasing. As for Scarlett, which already had exceptional, industry leading net promoter scores (NPS), we have managed to raise our average NPS another seven percentage points to 74%.

Additionally, we expanded the Group's portfolio by adding ADAM Audio to our family of products. As previously mentioned, ADAM Audio creates top quality, high resolution monitors for critical listening and monitoring of audio: a perfect complement to our existing portfolio. We continue to seek out other high quality acquisition opportunities.

Summary and Outlook

We are focused on three core goals: growing our customer base; increasing the lifetime value for our customers; and expanding into new market segments. To achieve this, we will continue to innovate, disrupt and grow our audience. We will also continue to remove barriers from the creative process of music creation and audio recording for all our customers, from beginners to professionals. With our first acquisition successfully closed, we look to pursue new opportunities to expand our business both organically and through further acquisitions.

Since the year end, ADAM Audio has continued to grow ahead of both prior year and our initial expectations. Within the Focusrite and Novation businesses, first quarter revenue is likely to be lower than the same period last year. However, this is not unexpected: revenue in the first quarter of last year benefited from the initial effect of the price increases in the US, introduced as a consequence of US tariffs, and revenue in the first quarter of this year has been impacted by the increased strength of GBP.

There is much change in the trading environment, causing risk but also providing many opportunities. Changes in technology and new customer requirements can emerge quickly; macroeconomic and political factors affect our end customers and distributors alike and competitive pressures remain. We have shown over the course of this past year that we are capable of navigating these risk factors, reacting in a methodical and measured way and ultimately protecting our revenue and gross margin; all the while staying focused on the execution of our growth strategy. I am very pleased with our FY19 results, as a continuation of our impressive and consistent growth story. We look forward to another productive year with many new products and solutions coming to fruition.

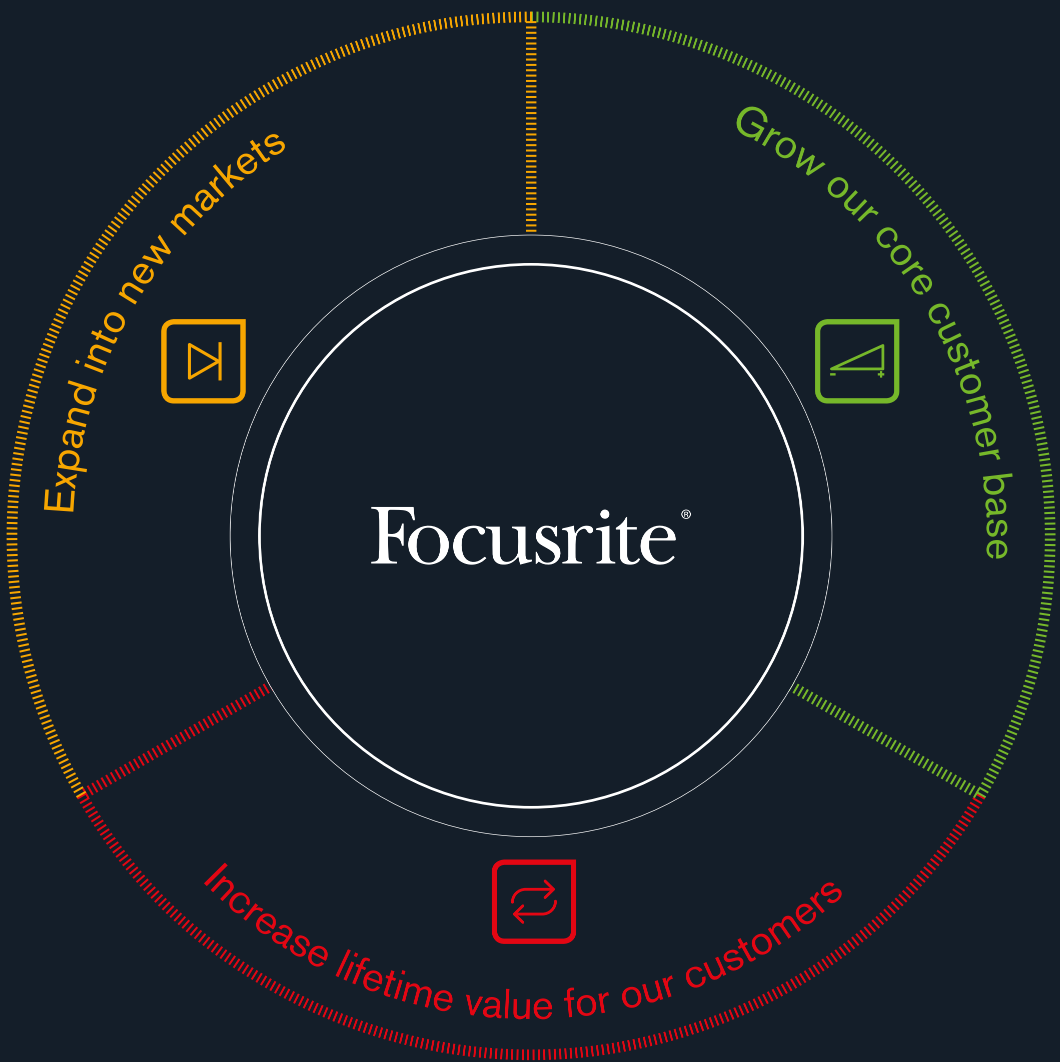
Tim Carroll

Chief Executive Officer

Our Strategy

Facilitating growth

A resilient strategy for continued growth



Underpinned by a performance-led culture

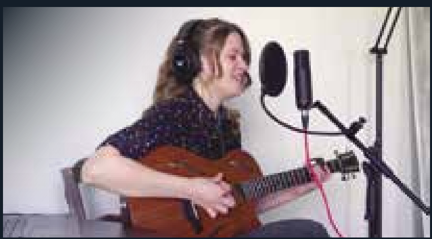
Grow core customer base

Focusrite is passionately committed to providing best-in-class solutions at every strategic price point. We look to retain our existing users and gain additional core customers by providing highly differentiated solutions.

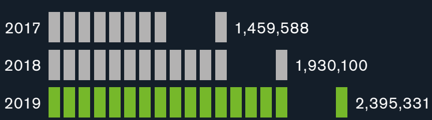
Our third generation Scarlett range saw a significant audio upgrade coupled with a move to USB-C to ensure connectivity with the latest computers. However, the greatest innovations lay in how they were brought to market.

From a manufacturing perspective, factory yield has been above 99% from the start. This is thanks in part to our adoption of 'Industry 4.0' processes, which include 24/7 remote monitoring of the production and QC lines, reducing downtime whilst developing the fundamental skillset of factory engineering staff.

At a communication level, we rode the wave of conversation in the music recording community to reach new audiences. Our message focused on empowering musicians, showcasing relatable artists in all of our content.



Number of registered core users



2,395,331

Objectives

- Continued innovation in our core markets.
- Hardware and software solutions focused on removing barriers to creativity and allowing everyone from beginners to professionals to create the best quality audio possible.
- Disruptive technologies that make our customers' creative endeavours easier to achieve.
- Consistently researching new technology that could enable new and enhanced workflows to better our customers' journey of creating fantastic audio.

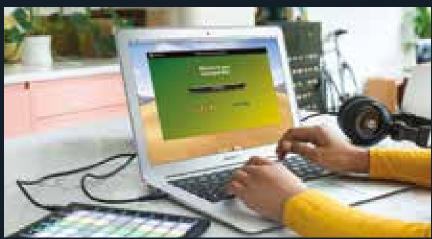
Increase lifetime value for our customers

Focusrite strives to increase the lifetime value for both existing and new customers by supplementing their purchases with additional hardware, content and software that augments the creative process of music making and audio production.

To continually increase value for our customers, present and future, we need to deepen our understanding of their creative needs. Greater understanding in turn helps us generate greater future value.

We've been working to grow our customer insights with a fair exchange of value, developing a variety of customer touchpoints, including our new Easy Start tool.

These insights drive the continuous improvements we're able to make, personalising their experience and increasing the lifetime value they get from Focusrite and Novation, particularly at critical stages in their wider music-making journey.



Net Promoter Scores

69

- Connect all touchpoints to maximise our customer insights.
- Develop increasingly personalised customer journeys.
- Generate inspirational content to complement the creative process.
- Deliver additional software to enhance the creative process.
- Cross-sell relevant solutions across our family of brands.

Expand into new markets

Focusrite plans for and achieves growth through investment in under-represented geographic markets, marketing to new verticals where our portfolio is relevant and pursuing more efficient routes to market. In addition, the Group is investigating the possible entry of related market segments, either organically or by acquisition.

Our most sought-after acquisition has always been a professional monitor company. For every Focusrite customer seeking to capture their true sound, there's also the necessity for them to hear that sound back, exactly as intended. Controlling the full sonic journey opens up a host of opportunities to innovate, creating a more holistic and creative experience for both the hobbyist and the audio professional alike. Considering all the options, there couldn't have been a better suited brand. ADAM Audio is a perfect cultural fit with strong financials and the ideal product portfolio to marry with Focusrite's interface solutions. The benefits to the Group are both immediate and far reaching.

Total Addressable Market[1] (£m)

£2,350m

- Leverage current portfolio to enter new markets.
- Careful consideration of acquisitions.
- Hire employees in high-growth developing areas.
- Localised experience for customers including language, routes to purchase and events.

1 Determined using a combination of US Retail data for Recording and Electronic Music equipment (source – Music Trades Industry Consensus) and worldwide revenue data for Studio Monitors (source – Futuresource), together with management input.

Our Strategy in Action: **Grow the Core**

Authentic. Aspirational. Obtainable.

Allow us to introduce Gabrielle Grau, from Lyon, France. She began making music in 2009 after her mother encouraged her to pick up the guitar. Finding inspiration from the streets of her hometown, and with encouragement from friends and family, Gabrielle soon found herself wanting to record.

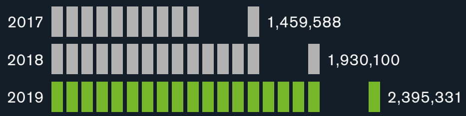
“My friends and my parents liked my music so I started a YouTube channel. I wanted to get advice from other people, and that’s why I started recording my music.”

Gabrielle bought a Scarlett 2i2 Studio, which gave her everything she needed to make great-sounding, complete songs, all from the convenience of her home. Her passionate pursuit of music and recording – for nothing more than artistic and creative purposes – attracted our communications team. Working with genuine members of the music-making community such as Gabrielle brings tremendous benefits in terms of brand authenticity. Collaborating with artists just one or two steps ahead of our core customer positions the Focusrite brand and Scarlett interfaces as both aspirational yet obtainable.

By focusing on the true Scarlett champions, we’ve captured the attention and respect of thousands more creators like Gabrielle – all around the world.

Number of registered core users

2,395,331



Our Strategy in Action: **Increase Lifetime Value for our Customers**

Insight Enabling Delight

A new music maker's first experience shapes the remainder of their music making journey. Our new Easy Start Tool, first launched with the introduction of Scarlett 3rd Generation, gives them the best experience possible at this critical junction. As a result, our NPS continues to rise; we achieved a greater than 10% increase with the launch of Scarlett 3rd Generation and our improved 'Getting Started' experience.

The Easy Start Tool is also driving our customer understanding. New insights from this tool enable us to deliver increasing value to our customers through personalised content and relevant software for later steps on their creative journey with us.

"I'm new to all things musical and really didn't find Google that helpful until I came upon this unit… You take it out of the box, connect it to your computer… and it directs you step-by-step from that point on. If there is a decision to make, they include the option to watch a video to explain the choices. I chose the most complicated path and within 2 hours recorded my first track."

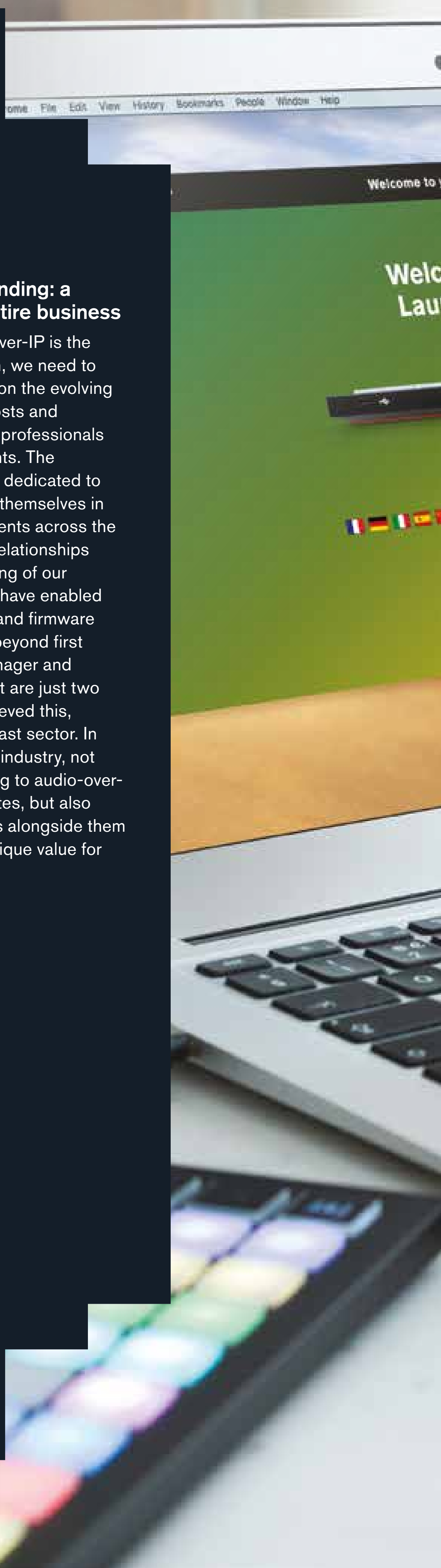
Amazon.com review – 8 July 2019

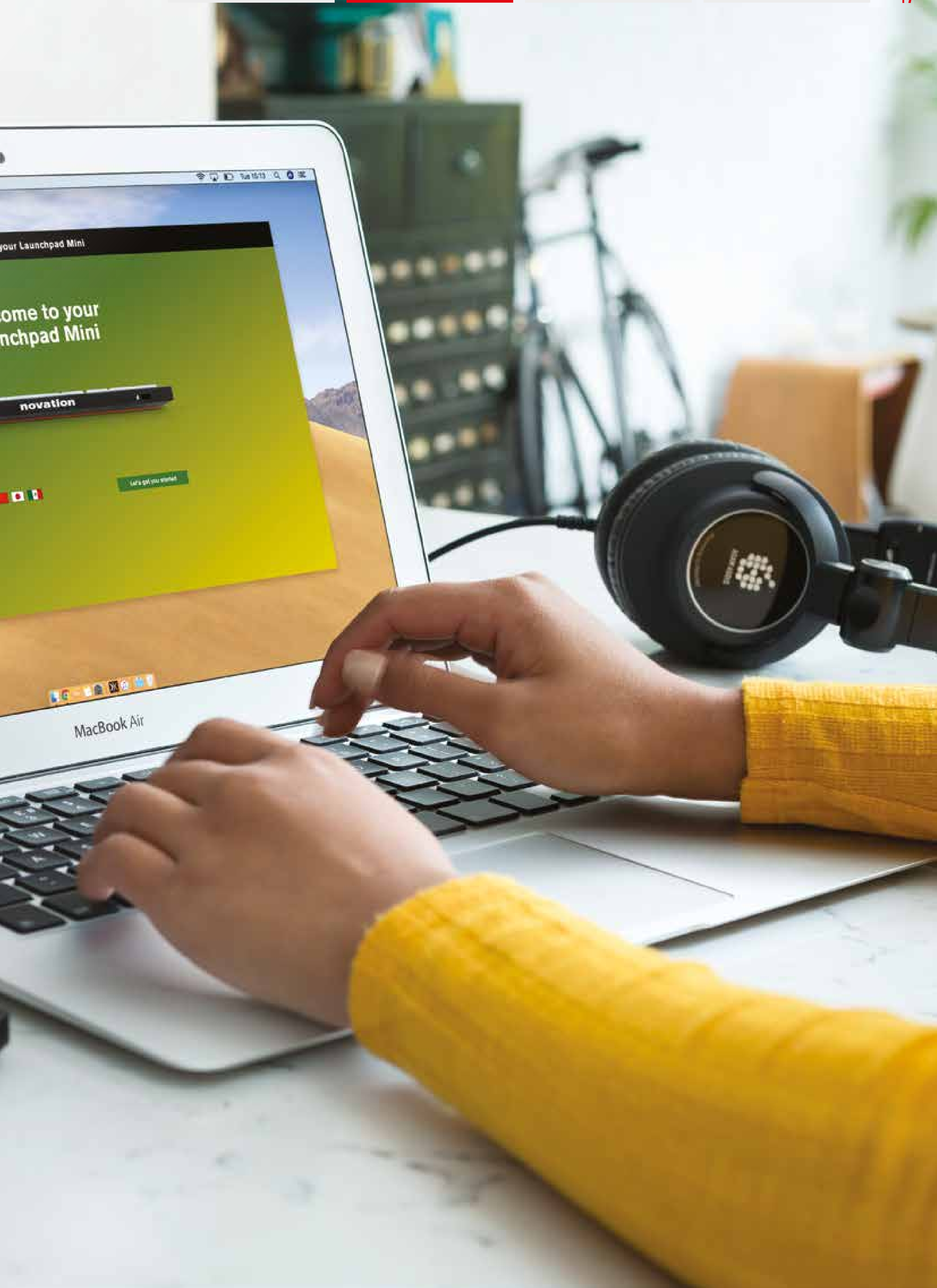
Net Promoter Scores

69

Customer understanding: a driver across the entire business

We believe that audio-over-IP is the future. To drive adoption, we need to have a constant handle on the evolving benefits in efficiency, costs and productivity, as seen by professionals in real world environments. The Focusrite Pro division is dedicated to this mission, immersing themselves in the operations of key clients across the globe. Strong industry relationships and a deep understanding of our professional customers have enabled us to develop software and firmware that creates new value beyond first sale. Dante Domain Manager and SMPTE ST2110 support are just two examples that have achieved this, especially in the broadcast sector. In this regard, we lead the industry, not just passively responding to audio-over-IP implementation updates, but also developing new features alongside them that genuinely create unique value for our users.




your Launchpad Mini
ome to your
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novation
MacBook Air

Our Strategy in Action: **Expand**

The ADAM Audio Acquisition

Over two decades, ADAM Audio has repeatedly redefined what it means to be a leading studio monitor company.

However, one aspect remains a constant – a relentless drive for quality and reliability, no matter the price. An ethos shared by The Focusrite Group, and most notably the Focusrite brand itself.

ADAM Audio's product lines are continually expanding, enabling them to make an impact across the entire market, from bedroom producer to audio professional.

The T Series is ADAM Audio's first product in the entry-level studio monitor market, introducing them to the hobbyist. The parallels between ADAM Audio's T series and Focusrite's Scarlett range are clear. Opportunities to cross pollinate are abundant, with future developments ever more closely aligned to deliver a seamless, creative user experience.

The AX series has been a staple in the market for years and continues to set a standard for mid-level and pro customers, achieving exceptional sound quality at a reasonable price. With the popularity of the AX Series in the post-production world, there are countless opportunities for integration with the Focusrite RedNet and Clarett series. Together, we can create a more integrated experience for surround mixing, or professional all-in-one solutions for studio build outs.

With hand-crafted products to fit any room, integrated DSP tuning and the finest components, the innovative S Series is designed from the ground up to exceed the expectations of the most discerning end-user – the audio professional. The pinnacle of ADAM Audio's transparent sonic reproduction, they combine new technologies that enable the professional to easily hone their sound. Much like with the AX Series, there are clear opportunities to integrate with Focusrite's RedNet systems in post-production facilities, large-format studios and beyond.

Just like Focusrite, the ADAM Audio culture is centred around its people and their passion for music creation; a passion that draws them closer to their customers. A customer-first focus is palpable across the organisation, exhibited in one-on-one interactions in the field, as well as an industry notable 5-year warranty service granted to ADAM Audio's most loyal customers.

The same hunger to exceed customer's expectations also drives constant innovation, both in vertical and horizontal markets. Together with Focusrite, we can look forward to exciting innovations that will break down more barriers to creativity for all our customers.

Total Addressable Market (£m)

£2,350m


HUF
novation
Custom
Note
Session
Mixer
Capture MIDI
Scarlett

Financial Review

The results of the group have strengthened during the year

"…excited about the acquisition of ADAM Audio"

Jeremy Wilson
Chief Financial Officer

Overview

The Group had another successful year, delivering growth of 12.7% in revenue, 11.1% in EBITDA and 11.0% in diluted earnings per share ('EPS').

Income statement

Revenue

Revenue for the Group grew 12.7% to £84.7 million. Within this, ADAM Audio contributed £1.8 million between the acquisition on 16 July 2019 and the year end on 31 August 2019. The remainder of the Group had revenue of £82.9 million, growing by 10.4% (5.6% at constant exchange rates) from £75.1 million in FY18.

The Focusrite segment comprises the products used in the recording and broadcasting of music. Focusrite supports all groups of people who want to record music. The primary ranges are Scarlett and Clarett. In this segment, revenue increased by 21.5% to £57.6 million, driven primarily by strong demand for the new, third generation of the Scarlett range.

Focusrite Pro supports master music makers, who produce music for a living, and commercial operations such as post production houses, live and broadcast stages and education establishments. The primary ranges are Red and RedNet. In FY19, revenue decreased by 1.2% to £4.7 million as products reached the latter part of their lifecycle.

Novation, including Ampify, support all musicians wishing to create music with technology, with products ranging from free apps to highly sophisticated synthesisers. The primary ranges are Launchpad, Launchkey, Circuit and the Peak and Summit synthesisers.

As discussed at the half year, Novation had a challenging year as the current generations of Launchpad and Launchkey products reached the end of their lives, before being replaced after the end of the financial year by the third generation of each range. Overall, revenue declined during the year by 11.7%.

ADAM Audio, which was acquired towards the end of our financial year, makes studio monitors of the type used by many of the Group's customers. Revenue in the six weeks that ADAM was part of the Focusrite group was £1.8 million.

The Group has long distributed products made by other manufacturers, recognising that the Group's sales and marketing organisation built up over many years represents a high quality route to market for other manufacturers. Revenue was similar to FY18 at £2.8 million.

Once again, all the major regions grew. North America represents 43% of the Group's revenue and grew at 11.1% (constant currency: 4.8%) to £36.4 million. North America in particular took to the new Scarlett range which fuelled the revenue growth in that region. In addition, the US distributor bought some extra stock in July and August to help ensure supply of the new ranges and to help protect against the effects of rising US import tariffs.

EMEA represents 40% of Group revenue. EMEA grew by 14.6% (constant currency: 12.4%) to £34.0 million with growth in UK, Germany and the rest of EMEA.

The Rest of the World ('ROW') comprises mainly Asia and South America and represents the remaining 17% of Group revenue. Revenue in ROW grew by 12.5% (constant currency: 5.0%). Within this segment, South America has experienced volatility as different countries have suffered wider economic problems so the Group is pleased to have generated modest growth in this continent.

Exchange rates have been broadly stable this year. The Euro average exchange rate has stayed at approximately €1.13 in both FY18 and FY19. The USD has strengthened from USD1.35 in FY18 to USD1.29 in FY19. This improves revenue but has little effect on gross profit because the majority of the cost of sales are also charged in USD. More detail on this and our hedging strategy is given later.

Segment profit

Segment profit is disclosed in more detail in the note to the accounts named, 'Business Segments'. In FY18, the segments consisted of Focusrite, Novation and Distribution. For FY19, Focusrite has been split into Focusrite and Focusrite Pro, in accordance with IFRS 15, and the Group acquired ADAM Audio. There are no other significant changes. The revenue is compared with the directly attributable costs to create a segment profit.

The segment profit for Focusrite was £28.8 million (2018: £22.2 million). This increased by 29.4% over the prior year as the latest generation of the Scarlett product range was welcomed by consumers. Focusrite Pro grew marginally to £2.9 million in FY19. Similarly, Novation weakened from £10.1 million to £8.7 million. The Distribution segment was broadly level at £0.8 million. Finally, ADAM Audio generated segment profit of £0.2 million in its first six weeks as part of the Group.

Gross profit

In FY18, the gross margin was 42.2%. In the first half of FY19, the gross margin grew to 44.3% as the Group reacted to the imposition of increased import tariffs into the US by raising prices to protect the margins. As discussed in the Interim Results, there was an enhanced gross profit in that period as the Group gained increased revenue on products imported prior to the new tariffs. Since then the import tariffs have been increased successively without further significant selling price increases in the US, leading to a gross margin in the second half of 40.3% and therefore a full year gross margin of 42.2%, which is equal to that achieved in FY18.

The Board continues to investigate ways in which it can manage and mitigate costs as well as charge an appropriate price for its world leading products.

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 £23.0 million, up from £19.7 million last year. Within this, FY19 included £0.7 million of non-underlying costs relating to the acquisition of ADAM Audio and FY18 included a non-underlying reduction of cost due to a recalculation of the start dates for the amortisation of individual development projects. Adjusting for both of these items, the increase was 10.7%. Once again, the major growth was in sales and marketing; development engineering; and finally central office costs as the Group matured. In this regard we hired a Head of People, because the welfare of our people is hugely important, and Head of Business Development to hunt for suitable acquisition targets and manage these transactions, alongside our advisers.

EBITDA

EBITDA is a non-GAAP measure but it is widely recognised in the financial markets and it is used within the Group as the basis of some of the incentivisation of senior management within the Group. The other major metric used for the incentivisation of management is cash generation and this is discussed later. EBITDA increased from £15.5 million in FY18 to £17.2 million in FY19, an increase of 11.1% (see table overleaf).

Depreciation and amortisation

Depreciation is charged on tangible fixed assets on a straight-line basis over the assets' estimated useful lives, normally ranging between two and five years.

Amortisation is mainly charged on capitalised development costs, writing off the development cost over the life of the resultant product. It has always been intended that the costs are capitalised prudently and amortised sensibly, with all development costs related to an individual product written off over a period up to three years for Focusrite and Novation and up to eight years for ADAM Audio reflecting the different lifespans of the products. During FY19, the R&D teams spent much time developing the latest generations of the Scarlett, Launchkey and Launchpad ranges. Scarlett was announced to the public in July 2019 and both the Launchkey and Launchpad ranges were announced after the end of the financial year. Therefore the capitalised R&D costs of £3.8 million (FY18: £3.0 million) were meaningfully greater than the amortisation of £2.2 million (FY18: £2.4 million).

Financial Review continued

Non-underlying items

In FY19, the Group bought ADAM Audio and the costs associated with the acquisition were £0.7 million. In FY18 the Group changed its amortisation of capitalised development costs from a standard amortisation timing covering all projects to a project-by-project basis. This change resulted in a single adjustment to reduce the amortisation previously charged by £0.3m and was shown as a non-underlying item in FY18.

Income statement

	2019 £m			2018 £m		
	Adjusted	Non-underlying	Reported	Adjusted	Non-underlying	Reported
Revenue	84.7	–	84.7	75.1	–	75.1
Cost of sales	(48.9)	–	(48.9)	(43.4)	–	(43.4)
Gross profit	35.8	–	35.8	31.7	–	31.7
Administrative expenses	(22.3)	(0.7)	(23.0)	(20.1)	0.3	(19.8)
Operating profit	13.5	(0.7)	12.8	11.6	0.3	11.9
Net finance income	0.2	–	0.2	(0.2)	–	(0.2)
Profit before tax	13.7	(0.7)	13.0	11.4	0.3	11.7
Income tax expense	(1.3)	–	(1.3)	(1.2)	–	(1.2)
Profit for the period	12.4	(0.7)	11.7	10.2	0.3	10.5

	2019 £m			2018 £m		
	Adjusted	Non-underlying	Reported	Adjusted	Non-underlying	Reported
Operating profit	13.5	(0.7)	12.8	11.6	0.3	11.9
Add – amortisation[1] of intangible assets	2.9	–	2.9	3.1	(0.3)	2.8
Add – depreciation[2] of tangible assets	0.8	–	0.8	0.8	–	0.8
EBITDA	17.2	(0.7)	16.5	15.5	–	15.5

1 See note 19

2 See note 20

Foreign exchange and hedging

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

Exchange rates	2019	2018
Average		
USD:GBP	1.29	1.35
EUR:GBP	1.13	1.13
Year end		
USD:GBP	1.22	1.30
EUR:GBP	1.11	1.12

The average USD rate has strengthened from $1.35 to $1.29. The USD accounts for over 50% of Group revenue so this increases the revenue growth. That said, the Group also buys the Focusrite and Novation product from its suppliers in USD and has some USD operating costs so there is a highly effective natural hedge. Therefore, the USD strengthening increases revenue but does not materially change gross profit.

The Euro comprises approximately a quarter of revenue but little cost so the Group enters into forward contracts to convert Euro to GBP. The policy adopted by the Group is to hedge 75% of the Euro flows for the current financial year (year ending August 2020) and 50% of the Euro flows for the following financial year (FY21). In FY18, approximately three-quarters of Euro flows were hedged at €1.12, and the average transaction rate was €1.13, thereby creating a blended exchange rate of approximately €1.12. In FY19, the equivalent hedging contracts were at €1.10, again close to the transactional rate of €1.13 and so creating a blended exchange rate of €1.11.

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

The major part of the balance within financing costs was the cumulative foreign exchange gain on the translation of cash held in USD.

Corporation tax

The effective corporation tax rate as a proportion of profit before tax was 10.4% (FY18: 10.3%). Most of the Group's profits are taxed in the UK, where the headline rate is 19%. The effective tax rate is lower than this headline rate, due largely to enhanced tax relief on development costs. In addition, the effective tax rate is higher than the prior year due partly to greater overseas profits in higher tax countries and partly due to lower deductions, as proportion of profit, for share options and development costs.

Earnings per share

The basic EPS for the year was 20.4 pence, up 10.9% from 18.4 pence in FY18. This rise has been driven by the profit increase, but it also includes the impacts of the non-underlying items in FY18 and FY19. The more comparable measure, excluding non-underlying items and including the dilutive effect of share options, is the adjusted diluted EPS. This grew to 21.4 pence, up 21.6% from 17.6 pence in FY18.

	2019 P	2018 P	Growth %
Basic	20.4	18.4	10.9%
Diluted	20.1	18.1	11.1%
Adjusted basic	21.7	18.0	20.6%
Adjusted diluted	21.4	17.6	21.6%

Balance sheet

	2019 £m	2018 £m
Non-current assets	25.7	7.3
Current assets		
Inventories	15.2	11.4
Trade and other receivables	18.2	13.4
Cash	15.5	22.8
Current liabilities	(16.9)	(11.1)
Non-current liabilities	(4.3)	(0.4)
Net assets	53.4	43.4

Cash flow

	2019 £m	2018 £m
Free cash flow[1]	(5.9)	10.0
Add – non-underlying cash outflows	16.1	0.0
Underlying free cash flow	10.2	10.0

1 Defined as net cash from operating activities less net cash used in investing activities.

Financial Review continued

Balance sheet

Non-current assets

The non-current assets comprise: goodwill; capitalised development costs; property, plant and equipment; and software. The goodwill of £5.3 million (FY18: £0.4 million) is almost all related to the acquisition of the ADAM Audio group in July 2019. The capitalised development costs have a carrying value of £9.2 million (FY18: £4.6 million). This comprises an increase of £1.6 million which is the excess of Focusrite capitalised development costs over the amortisation as well as the acquired capitalised development costs of £3.0 million within ADAM Audio which are amortised over three to eight years. Approximately 70% of development costs are capitalised and they are amortised over three years. This policy is unchanged from last year. In addition, other intangible assets were acquired as part of the business combination, with brands valued at £7.5 million and to be amortised over ten years, as well as product designs of £1.5 million to be amortised over three years.

Working capital

Working capital was 20.2% of revenue (FY18: 19.0%). Within the Focusrite business, the working capital was 17.7% of revenue, compared with 19.0% last year. Debtors were naturally greater at the year end as there were significant sales of the new Scarlett generation of product within the final two months of the financial year. That said, the increase in stock was modest and creditors and accruals only increased marginally.

The working capital at ADAM Audio consists largely of stock with relatively low debtors. The management of ADAM Audio's working capital will be considered carefully over the coming year.

Stock continues to be managed carefully despite the hindrances of a lead time that is longer than the 'order book' and individual product demand that differs between months. Overall, stock within the Focusrite business increased from £11.4 million to £12.0 million. The stock within the ADAM business was £3.2 million.

Most customers continue to pay on time with a small proportion of customer debts overdue at the year end. Finally, it is aimed that all suppliers are paid on time.

Cash flow

The net cash balance at the year end was £14.9 million, down from £26.2 million at the half year and £22.8 million as at 31 August 2018. In July 2019, the Group bought ADAM Audio for £16.2 million. Subtracting a small holdback as part of the transaction and adding the costs of advisers paid prior to the year end, the cash paid prior to 31 August 2019 in respect of the transaction totalled £16.1 million. Adjusting for this, the year end free cash flow was £10.2 million (FY18: £10.0 million), which was 12.0% of revenue (FY18: 13.3%). Within this, the movement in working capital was an outflow of £2.2 million (FY18: outflow of £0.4 million). The conversion of revenue to free cash flow is important so this measure (free cash flow as a percent of revenue) is now to be included as an incentive for more senior management within the Group. Since the IPO, the average free cash flow as a percentage of revenue has been approximately 9%. Finally, the Group has a committed five-year £10 million revolving credit facility with HSBC, expiring in December 2020.

Dividend

The Board is proposing a final dividend of 2.6 pence per share (FY18 final dividend: 2.3 pence), which would result in a total of 3.8 pence per share for the year (FY18: 3.3 pence). This represents an adjusted earnings dividend cover of 5.6 times (FY18: 5.3 times).

Summary

The financial results of the Group have continued to strengthen during the year and the Directors are pleased with the final result and the fact that revenue, profits, EPS and dividend have all continued to grow. We are excited about the acquisition of ADAM Audio and believe that the combination of Focusrite and ADAM will drive further revenue and profit growth in the future. Many of the senior management are now incentivised on profit growth and free cash flow generation, which we believe will help to ensure that the revenue leads to cash, which can then be invested in further growth for the benefit of our shareholders.

Jeremy Wilson

Chief Financial Officer


Focusrite

Principal Risks and Uncertainties

Risk factors

In common with all businesses, the Group faces risks, the effective management of which is necessary to enable it to achieve its strategic objectives and secure the resilience of the business for the long term. Management of risk is critical to the effective running of the business and is considered as part of the Group's decision-making processes.

Risk area	Description	Mitigation
Economic environment	The Group operates in the global economy and ultimately within the retail environment with products being sold to consumer end-user musicians. Such operations are influenced by global and national economic factors.	The Group sells products at all levels of the market in c.160 territories worldwide via three distinct product categories and is working to reduce reliance on any single product or territory, helped by the recent acquisition of ADAM Audio.
BREXIT	The prospect of a no-deal exit by the UK from European Union has caused considerable uncertainty. There has already been foreign exchange volatility and the imposition of some additional duties and minor disruption to the logistics network.	A large proportion of product is shipped directly from the manufacture to the distributors, particularly in the US and Asia. Product destined for continental Europe travels via the UK. The Group is positioning itself to be able to continue to supply products from the UK to continental Europe in the period following the exit. The Group has previously increased selling prices in the UK to correct the imbalance caused by the significant foreign exchange rate changes. A working group has been established in order to monitor the possible impacts of a no-deal exit and plans have been put in place to mitigate these risks, for example the rights of EU employees to live and work in the UK, the ability to trade on our existing contractual terms, how we will manage the personal data of customers if the UK is deemed to be a third country and other matters as they become known. Based on the above, the risk has been assessed as not significant.
USA import tariffs	In September 2018 the USA implemented tariffs of 10% on the importing of most products manufactured in China. A further wave of 25% import tariffs was launched in May 2019. There is a risk that import tariffs could rise further. The Group has product manufactured in China, so selling product in the US is becoming more expensive.	The Group increased the minimum advertised price to cover the additional tariffs. This provided a possible upside from the higher price charged but an uncertainty regarding the effect of the higher price on consumer demand. The results were mixed: some products had unchanged demand. Demand for others fell. Longer term, the Group is taking further actions to mitigate the import duties including manufacture outside China, in an effort to make the impact of the tariff costs less significant.
Product innovation	The market for the Group's products is characterised by continued evolution in technology, evolving industry standards, changes in customer needs and frequent new competitive product introductions. If the Group is unable to anticipate or respond to these challenges or fails to develop and introduce successful products on a timely basis, it could have an adverse impact on the Group's business and prospects.	Research and development remains one of the Group's largest investments. The Group has a bespoke project system that facilitates the operation of a rigorous, disciplined product introduction process to ensure that as far as possible the fast-changing needs of its target markets are met. In addition, the Group continuously seeks efficiencies and minimises costs where possible.
Supplier concentration	The Group is dependent on a small number of suppliers, in particular its largest supplier, which supplies Focusrite interfaces. Failure or material delay by its suppliers to perform or failure by the Group to renew such arrangements could have a material adverse effect on the Group's business, operating results and financial position.	The Group has supply agreements with four major manufacturers. The Group works with its resellers and distributors to ensure they are holding sufficient stock levels should there be disruption to the supply chain. Relationships are long-lasting and strong. Members of the operations department within Focusrite meet each supplier three to four times per year to review performance and costs.
Customer concentration	In certain countries, including the USA, the Group operates via a single distributor or has large individual reseller customers. In certain cases, a failure of or breakdown in the relationship with a key reseller or distributor, or even the failure of a major customer of that distributor, could significantly and adversely affect the Group's business.	In cases where there is a large distributor in a significant market, the Group also communicates with the major retailers. In addition, the Group carefully monitors customer credit limits and has credit insurance which typically covers the majority of the customer debts outstanding at any point in time.

Risk area	Description	Mitigation
Channels to market	Significant change in the methods by which end-users wish to buy Focusrite products could significantly affect the Group's business.	The Group or its distributors sell to both 'bricks and mortar' and e-commerce retailers so that the Group can satisfy customer demand via both methods.
Currency	The Group is exposed to currency and exchange rate fluctuations which may affect the Group's revenue and costs when reported in GBP.	There is a largely effective natural hedge for USD transactions as the Group uses its generation of USD to buy product in USD. Conversely, the Group has substantial Euro revenue and little cost. The Group mitigates this Euro exposure by entering into forward foreign exchange hedging contracts for the conversion of Euros to GBP.
People	The nature of the Group's business requires its employees in the technical and development teams to be highly skilled and experienced in their respective fields. The Group is dependent for its continued success on being able to attract, retain and motivate such individuals.	The Group is a leading company in the UK music industry and so attracts high quality technical personnel. The Group also attracts graduates from music technology, electronics and engineering courses at renowned universities. The Group invests in developing its employees and incentivises them through wide-ranging share ownership incentives and other employment benefits to aid retention.
Intellectual property	The intellectual property and data developed by the Group is valuable and the Group could be harmed by infringement or loss.	The Group has established a programme for protecting its intellectual property and pursues infringements. The Group has data and information technology controls which are reviewed by the Group Board. Additionally, the Group includes data protection provisions in the contracts of all Group employees.
Information security	Information security and cyber threats are currently a priority across all industries and remain a key government agenda item.	The Group has carried out a detailed review of IT systems to identify elements requiring upgrade. There has already been a widespread upgrade of core IT functionality including cybersecurity (firewalls, anti-virus, mobile device management) and the implementation of backup and disaster recovery processes. The Group has moved core enterprise resource planning systems to the cloud with robust service level agreements in place to ensure data availability and security. The Group implemented a customer relationship management system to ensure GDPR compliance. There is an improving business continuity framework and a dedicated internal IT support team aided by external support providers.

Forward looking statements

Certain statements in this full year 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.

Corporate Social Responsibility

'Committed to acting responsibly'

OUR 2019 RESPONSIBILITY REPORT

In a world where trust and integrity are waning, the drive from our team for us to always operate in an entirely trustworthy and responsible manner is palpable. They are not alone. Our customers, suppliers, and indeed investors, present and potential, increasingly echo this sentiment.

However, as a global leader in our industry, we see our responsibility extending beyond our own actions. We seek to influence. Rather than quietly adhering to the legal compliance put forward by government and other controlling bodies, we want to lead our industry. We want to help and guide others in making the world in which we make music, a better one for everyone.

OUR PEOPLE

Equality, Diversity and Inclusion ('EDI') is of paramount importance to us. A concern we believe is shared by all our customers, partners, suppliers and those we associate with on a day to day basis. To ensure we stay true to our beliefs we have developed a robust policy. A strong EDI culture often means a shift in an organisation's mind-set and practices. We're committed to driving a culture where everyone is considered in their actions, language and behaviours, as well as their impact on others.

Our Diversity Group works to ensure we continually review our approaches, methods, related policies and practices. Our present focus is on the current bias, in our own organisation and the wider audio industry, towards men. To address this we created a 'Women in Audio' Committee, focused on driving initiatives such as gender-balanced imagery across all communications, recruitment initiatives that address a more gender-balanced community, as well as supporting non-profit groups committed to the same cause, supporting them both financially and with the commitment of time from our people.

With a team of growing diversity, or indeed any team, there comes the responsibility to ensure the healthiest and safest of work environments. Upholding the value to 'pull together', we encourage a flat hierarchy with an 'open door' policy. Anyone at any time can talk to any of the Executive Directors or Operations Board members to raise any matters for discussion, ask questions, or simply share ideas. The fluidity of knowledge-sharing in our Group is one of our core strengths. Together with the true sense of 'the Focusrite family', we seek to turn challenges into opportunities. We seek, solve, and celebrate together.

To assist in the dynamic flow of knowledge and to keep the team tight, we maintain a group intranet – Our Hub – for the sharing of ideas, information and best practice. However, our ideas are not just shared online. The impact of our fully subsidised kitchen on our culture should not be underestimated, bringing our team together on a daily basis. A Whistleblowing policy was implemented back in 2015, to ensure team members can raise an issue they feel unable to discuss with their manager. With such an open culture, driven by our value to 'Stay True', that whistleblowing policy has yet to be enacted.

For our remote offices we try to implement alternative solutions that bring the team together and nourish their minds as well as their bodies. To that end, we run regular 'Lunch and Learns', where strategic partners and departments have an open platform to share their news. All our Lunch and Learns are recorded and shared on Our Hub.

We have been awarded two and three star accreditations from 'Best Companies', the organisation which conducts and manages The Sunday Times 100 Best Small Companies to Work For, several times. Making use of prior years' Best Companies data, 2018/19 saw us implement several initiatives, including the hiring of a Head of People to help address the opportunities highlighted by past surveys, many of which you will find covered within this statement.

We recognise that we will never realise our vision externally if we can't realise it internally. To that end, we have worked hard to find ways to bolster our team's passion for music and its power to do good in this world, creating events and initiatives to help employees engage with music in new and exciting ways. Currently over 50 team members take advantage of our subsidised piano lessons on site, and we ensure that those not currently engaging in creating music are given the opportunity to do so, with free music production workshops during work hours, run by the team, for the team.

In September 2019 we overhauled our approach to performance management to ensure we get the best out of each other. We have shifted towards a 'check in culture' on a monthly cycle to ensure regular meaningful discussions always take place. The new approach aims to look at performance in the round, including 'the day job', objectives and behaviours aligned to our values, as well as knowledge and personal development. This approach allows us to review the 'what' alongside the 'how', and is equally balanced to ensure we consider both how our people can support the business as well as how we can support the growth and development of our people. The process has been born from a consultation with our new people forum and existing management forum to ensure buy-in and value from the start.

For essential cross-company training, we've implemented an online training tool to ensure broad engagement, adoption and understanding. Topics covered on that platform are focused on reducing stress by creating a safe and secure work environment. To date we've covered the risks of modern slavery and human trafficking in our supply chains and business, health and safety, manual handling and mental health. Our health and safety policy is regularly reviewed by our Compliance Committee and an introduction to our modern slavery and human trafficking practices and policies forms part of the induction process for each new member of our team.

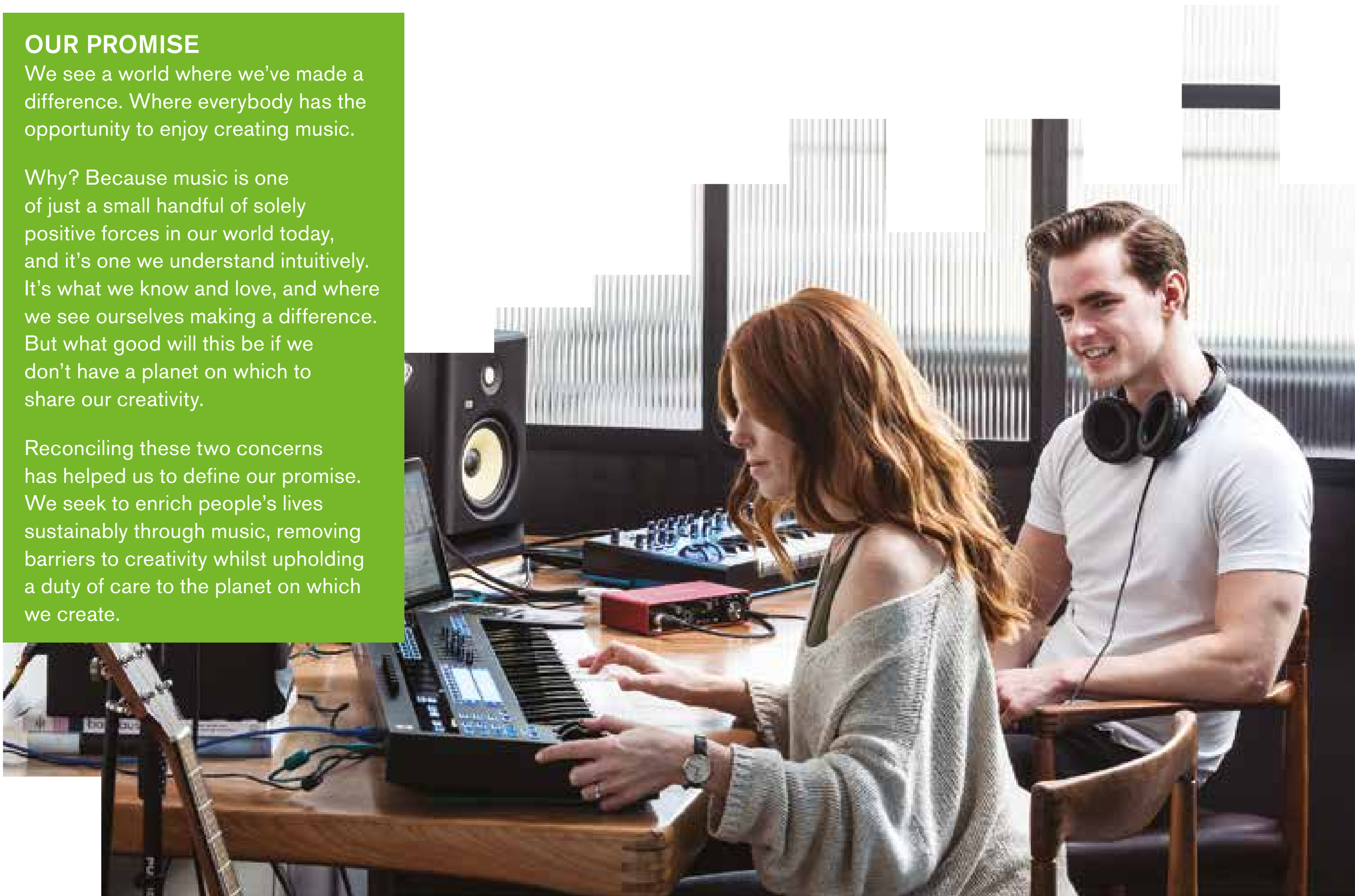
"…we have worked hard to find ways to bolster our team's passion for music and its power to do good in this world."

OUR PROMISE

We see a world where we've made a difference. Where everybody has the opportunity to enjoy creating music.

Why? Because music is one of just a small handful of solely positive forces in our world today, and it's one we understand intuitively. It's what we know and love, and where we see ourselves making a difference. But what good will this be if we don't have a planet on which to share our creativity.

Reconciling these two concerns has helped us to define our promise. We seek to enrich people's lives sustainably through music, removing barriers to creativity whilst upholding a duty of care to the planet on which we create.



Corporate Social Responsibility continued

OUR PLANET

We recognise our duty of care for this planet on which we create. We aim to be environmental sustainability leaders, setting the standards that industry peers strive to achieve.

Environmental sustainability is a growing concern for all our audiences, from investors, suppliers and resellers, to customers and our own employees, present and future. A strong sustainability policy requires SMART goals that everyone can subscribe to; goals that balance meeting the needs of the present without compromising the ability of future generations to meet their needs.

There are two main aspects to our environmental footprint at Focusrite. Our operational impact, and the total environmental impact of our products. For both aspects we're concerned with both carbon footprint and the consumption of resources. We've recently kicked-off focused work with climate change charity Julie's Bicycle, who specialise in helping the creative industries reduce their environmental impact.

We're working with them to deliver a Sustainability Policy for the Focusrite Group, a Carbon Footprint assessment of our HQ Office, and a detailed Life Cycle Analysis of the Scarlett 2i2 and Launchpad, our two biggest selling products. Out of this work will come detailed reporting, a clearer perspective on where our biggest impact is and clear goals to address this.

Meanwhile, over the last year our aim has been to identify the areas where we can make an immediate difference to our operational impact.

We've switched our energy supplier to 100% renewable electricity sources for headquarters, reduced our meat consumption in the canteen by 25%, and replaced desk bins with centralised recycling points, reducing our black bin waste by 75% on average. Over 80% of daily office waste is now recycled.

We've re-negotiated a cost neutral change to our DHL account, supporting their 'Go Green' initiative, offsetting the carbon from every shipment sent. We've also worked closely with Kuehne + Nagel, our inbound and outbound third-party logistics.

Our forward planning around the production and shipment of our products has enabled us to all but eradicate air freighting of production stock.

Meanwhile, we continue to upgrade and expand the use of our video conferencing facilities, most notably utilised for our supplier quarterly business reviews, resulting in a significant reduction in the number of flights. Flight reduction for tradeshows and exhibitions has also been targeted, with a reduction goal of a third in 2020.

In relation to the impact of Focusrite's Products, the new Scarlett 3rd Generation range was a huge step forward for us. Compared to the second Gen range, they use 26% less raw materials to build, emit less carbon to ship (the cartons are 18% smaller), and are more energy efficient using up to 34% less power. In pursuing this, we also implemented a set of guidelines into our product design process to look at material usage and energy consumption from the very beginning for all new products.

Windsor House Café (left) helps to drive a 25% reduction in meat consumption by promoting both vegan and vegetarian options.

"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 VTech team (above) receive our 'Best Focusrite Supplier' award, presented by Focusrite Contract Manufacturing Manager, Simon Burges.

OUR PARTNERS

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

Our choice of contract manufacturers is critical to our business, not only for ensuring our quality of manufacture but also in terms of social responsibility and sustainability. The initiatives of our suppliers include reducing energy and water consumption and the reduction of waste through recycling, solar power and rainwater collection, among others. We continue to work with them to improve in all these areas. All our contract manufacturers operate with a minimum accreditation of ISO 9001 and ISO 14001. Our largest manufacturer also holds SA 8000 and OHSAS 18001 accreditation with a strong, active 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're committed to ensuring that there is no modern slavery or human trafficking in our supply chain or any part of our business. Our Anti-Slavery Policy, 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 to ensure slavery and human trafficking is not taking place anywhere within our supply chain.

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 better understand how technology can help them break down the pedagogical barriers that render music education the privilege of the few, rather than the right of the many.

We're also proud of the relationships we've fostered with a number of music and business universities, locally, nationally and indeed internationally. Working with education establishments is not a new concept for us, though our focus in the past has been at the undergraduate level. Since 1999, we've worked closely with a number of renowned universities. Each year we employ up to ten 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 also support some select local initiatives, providing prizes for student competitions closer to home, including the Bucks Battle of the Bands.

Corporate Social Responsibility continued

Focusrite Residency Scholarship recipients on a year 1 Harmony class with Music Crossroads, Zimbabwe.

OUR PASSION – OUR CUSTOMERS

We have three types of customer: distributor, reseller and end-user. Ultimately, we create solutions for end-users and that is where we are most acutely focused.

Relevance and authenticity are the hallmarks of our end-user communication strategy, with industry-leading videos as the primary medium for content. A genuine bidirectional line of communication with swift response rates has helped to grow our social media channels. With paid advertising on social media kept relatively low, investments are made instead in the generation of relevant, useful, inspirational content that the community then shares organically.

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. 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. The Customer Support team meets weekly to discuss lessons learned, in a bid for constant improvement. They also relay this information directly to R&D, either to effect 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.

One of the key areas that Focusrite is keen to improve upon is accessibility, in both software and hardware music devices. In 2017 the business created an 'Accessibility Steering Group', bringing together representatives from across the business to highlight key areas.

In doing so, the importance and profile of accessibility has been raised to the wider business via engagement with external third parties such as Chiltern Music Therapy and internal presentations on the topic. The business has also engaged directly with visually impaired users to assess the accessibility of its products, most recently in the Scarlett 3rd Generation project where visually impaired users were beta testers.

Additionally, various activities relating to accessibility are performed in early phases of a product's design, from checking for contrast and colour blindness issues in the design of a user interface, to using tools from Cambridge University that simulate visual impairments and physical impairments such as arthritis. Ultimately it is the business's goal to influence the wider music industry to ensure that other manufacturers also develop increasingly accessible solutions.

The barriers to creativity are greatest beyond the technical. In 2018 we introduced a more formal structure to giving back, working together to highlight and support charities that shared our belief in music as a power for good. As well as mirroring the fundraising of our team members' own charitable endeavours, we also directly supported several local and global charities, addressing issues such as gender inequality, poverty, education, social stigma, prison reform and physical and mental rehabilitation. One key initiative that we're excited to grow in 2020 is our scholarship program with Music Crossroads International, an award-winning charity focused on music education and the music industry in the southern African region. In 2019, our scholarships provided students in Malawi, Zimbabwe and Mozambique with professional training at their local Music Crossroads Academy, helping them to acquire the knowledge and skills necessary to earn a living through the implementation of their talent.

We're very proud of our increased focus this year on being an influence for good in this world, but we recognise the challenges ahead. 2019 sees us reporting on a host of strong initiatives. 2020 will see those initiatives come together as part of a more holistic Social Responsibilities Strategy, with clearer milestones and reporting. We're confident that this will give our good intent the longevity and structure is deserves, and together we can enrich people's lives through music for years to come.

"In 2018 we introduced a more formal structure to giving back, working together to highlight and support charities that shared our belief in music as a power for good."

Tim Leathem, a musician at Drake Music Northern Ireland, uses Mininova Animate pads as an accessible way to manipulate synthesis parameters.

The Strategic Report, comprising the 'Our business model', 'Our strategy', 'Principal risks and uncertainties', 'Business and Financial Review' and 'Corporate and social responsibility' sections, was approved by the Board of Directors on 20 November 2019 and signed on its behalf by:

Tim Carroll
Chief Executive Officer
19 November 2019

Jeremy Wilson
Chief Financial Officer
19 November 2019

Board of Directors

Our Board has many years of experience within the industry.



	Philip Dudderidge Executive Chairman and Founder	**Timothy Carroll** Chief Executive Officer	**Jeremy Wilson** Chief Financial Officer
Appointed date	March 1989 Appointed Chair – January 2012	January 2017	September 2014
Experience	Phil has a distinguished career in the professional audio industry. He co-founded Soundcraft in 1973 which became a leading brand of sound mixing consoles and was sold to Harman International in 1988. Phil acquired the assets of Focusrite Ltd in 1989. Phil served as Chief Executive Officer of Focusrite from 1989 until he became Chairman in 2012.	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.	Jeremy was appointed Chief Financial Officer of Focusrite in September 2014. Prior to Focusrite, Jeremy was Chief Financial Officer of Atex Group Ltd, a leading worldwide developer of content management and advertising software to the media industry. Before that, Jeremy was Chief Financial Officer of Regenersis plc, the AIM-quoted support services business. Prior to his Chief Financial Officer roles, Jeremy held several senior finance roles at DHL Express (UK) Ltd and Electrocomponents Plc. He qualified as a Chartered Accountant at KPMG in 1992.
Committee membership	N		

A Audit Committee
R Remuneration Committee
N Nomination Committee
● Committee Chairman

David Bezem

Independent
Non-Executive Director

December 2014

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 Chairman of the Remuneration Committee of Harvey Nash Group plc.

A R N

Paul Dean

Independent
Non-Executive Director

December 2014

Paul joined the Board of Focusrite in December 2014. Paul has over 30 years of experience across numerous sectors, including technology. Previously, he 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 a Non-executive Director and Chairman of the Audit Committee at Porvair Plc, Polypipe Group Plc and Wincanton Plc. He is also the Senior Independent Director at Porvair Plc and Polypipe Group Plc. Paul is a Chartered Management Accountant.

A R N

Naomi Climer CBE

Independent
Non-Executive Director

May 2018

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: Trustee at the Royal Academy of Engineering; Non-executive Director of Sony UK Technology Centre; Chair of Council at the International Broadcasting Convention; 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.

A R N

Francine Godrich

Company Secretary

June 2018

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.

Executive Management Team

Experience counts, and with almost 200 years of music industry experience between them, the Focusrite Group's executive team have a lot to call on.

Tim Dingley
Operations Director

Christian Hellinger
CEO of ADAM Audio

Jeremy Wilson
Chief Financial Officer

Phil Dudderidge
Executive Chairman and Founder

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

Giles Orford
Brand Director

Damian Hawley
Global Marketing and Sales Director

Simon Holt
Engineering Director

Corporate Governance Report

Chairman's Introduction

This is Focusrite plc's corporate governance report for the year ended 31 August 2019, delivered on behalf of the Board.

Governance

As Chairman, I am responsible for ensuring that the Board operates effectively and upholds high standards of corporate governance. The Board understands the importance of ensuring that a strong governance framework which underpins the Group's ability to achieve its strategic goals is in place. Governance arrangements are reviewed on an ongoing basis to ensure they remain fit for purpose. As the Group ultimately operates within the consumer sector, our focus remains on the safety and security of the Company's products and customer data.

The Board's Roles and Responsibilities

The Board's principal role is to provide effective leadership of the Group. It is also responsible:

- to shareholders for delivering shareholder value by developing the overall strategy and supporting the development of the direction of the Group;
- for overseeing the Group's external financial and other reporting; and
- for ensuring that appropriate risk management and internal control systems are implemented and maintained.

In addition, the Board has a schedule of matters reserved to it including, but not limited to:

- management structures;
- strategy and policy;
- finance; and
- legal, administrative, pension and other benefits and miscellaneous.

Compliance

The Group is committed to the highest standards of corporate governance and complies with the provisions of the QCA's Corporate Governance Code ('the Code') or provides a well reasoned explanation where we do not. Our statement of compliance, required for AIM companies can be found on our website at www.focusriteplc.com . The Code is published by the Quoted Companies Alliance and is available at https://www.theqca.com.

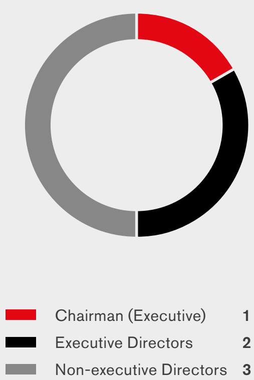
Leadership

The Board recognises the importance of establishing the right culture and communicating this message to the Group. It is important that we provide strong and effective leadership and constructive challenge and, along with the Operations Board, accept collective accountability for the long-term sustainable success of the Group. In so doing, we will continue to drive and deliver our strategy in the best interests of all our stakeholders.

Board Structure

Board Gender

Board Executive/Non-executive membership



Tenure (Board)

Board Structure

There were no changes to the Board during the year. Biographies of individual Directors are provided on pages 34 and 35 and their Board and Committee responsibilities are outlined below and in the various Committees' reports.

All Non-executive Directors were considered by the Board to be independent at the time of their appointments, independent as to character and judgement and to be free of relationships and other circumstances that might impact their independence. Through the Remuneration Committee, the Chairman and Non-executive Directors meet without the Executive Directors present. 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 terms of reference for each Committee are available on our website, http://focusriteplc.com/investors/corporate-governance and are reviewed annually. The chairman 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 chairman 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 auditors. The Committee met five 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 43 to 45.

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. 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 49 to 53.

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 Company'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.

Chairman

The Chairman is responsible for the leadership and effectiveness of the Board. The Chairman's responsibilities include:

- chairing the Board and shareholder meetings (including the AGM);
- providing leadership of the Board and ensuring that the Board maintains its effectiveness;
- providing challenge to the Executive Directors and working closely with the Chief Executive Officer on key strategic decisions; and
- setting the Board agenda and ensuring all Directors have the opportunity to maximise their contribution to the Board by encouraging open and honest debate and constructive challenge of the Executive Directors.

Chief Executive Officer

The Chief Executive Officer is responsible for the implementation of the approved strategic and financial objectives of the Group. To assist in this, the Chief Executive Officer leads the Operations Board which consists of the Chief Financial Officer, the Director of Global Sales and Marketing, the Director of Operations and the Director of Engineering. The Operations Board meets in person once a month with a focus on operational performance. The Chief Executive Officer's responsibilities include:

- the day-to-day running of the business being accountable to the Board for the Group's financial and operational performance;
- developing and reviewing the Group strategy;
- with the Chief Financial Officer, maintaining a dialogue with major shareholders;
- with the Chief Financial Officer, reviewing the departmental budgets;
- chairing the Operations Board to direct and co-ordinate the management of the Group's business generally; and
- monitoring the performance of senior managers.

Corporate Governance Report continued

Board Structure continued

Non-executive Directors

The Non-executive Directors provide independent, constructive challenge and insight to the Executive team, forming an integral part of the Board's decision-making process together with the monitoring of management and business performance.

The Non-executive Directors play a key role in developing and reviewing proposals on strategy, strengthening governance through participation and in chairmanship of the Board Committees and providing a wide range of experience and independence. This aids the Board in developing a broader understanding and in evaluating the implications, risks and consequences of decisions.

Operation of the Board

The Board meets as often as necessary to discharge its duties. The attendance record for the Board members during the year ended 31 August 2019 is set out below. 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 meeting. Ad hoc meetings of the Board are held at short notice as appropriate:

	Number of Board meetings attended[1]
Executive Directors	
Phil Dudderidge	12/12
Tim Carroll	12/12
Jeremy Wilson	12/12
Non-executive Directors	
David Bezem	12/12
Naomi Climer	12/12
Paul Dean	12/12

1 There were ten scheduled Board meetings and two ad hoc Board meetings

A topical Board calendar is prepared on an annual basis with members of the Operations Board and the extended management team regularly invited to attend to present an update on their areas of the business. This is highly valuable in providing further detail to support strategic decisions. In addition, the Board meets on an ad hoc basis as necessary to consider specific issues, such as potential corporate activity.

Comprehensive Board packs are circulated in advance of each meeting and the following standing items are discussed:

- implementation of actions agreed at previous meetings;
- report from the Chief Executive Officer on operational and strategic matters;
- business development;
- financial results, management accounts and commentary;
- regular presentations from members of the Operations Board and the extended management team; and
- legal, governance and regulatory matters.

Key topics considered by the Board in 2019 were:

- acquisition opportunities;
- banking facilities;
- review, debate and challenge of the corporate strategy and plan;
- Group budget;
- financial results announcements, presentations, report and accounts and market updates (annual and half year);
- Group viability statement;
- information and cyber security;
- succession planning;
- risk management;
- sales and marketing;
- people strategy; and
- operational efficiency and production.

There is ongoing contact between the Chairman, Executive Directors and Non-executive Directors between Board meetings. 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 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 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.

Board and Committee Effectiveness

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.

The Nomination Committee considers that all the Directors continue to be effective and demonstrate an appropriate commitment to their roles. Board discussions are open and constructive and members are encouraged to express their views in an independent fashion.

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. If any potential conflict arises, the Articles of Association permit the Board to authorise the conflict, subject to such conditions or limitations as the Board may determine. In situations where a conflict arises, the Director concerned is not permitted to vote in relation to that matter.

Accountability

There are formal and transparent arrangements for considering how corporate reporting, risk management and internal control principles are applied. The Company has a range of governance-related policies and procedures in place, including standards of business conduct, 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 shareholders 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 Board governs through clearly defined committee structures, which support the work of, and are accountable to, the Board. Details of the role and activities of the principal Committees are set out in the Committee reports.

The Group has implemented a system of internal controls to reduce, as 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.

The key components of the Group's overall control frameworks, all of which were in place, or established, throughout the year ended 31 August 2019 are as follows:

- delegated limits of authority;
- a comprehensive weekly and monthly financial and operational performance reporting system is in place which covers, amongst other things, operating results, cash flow, balance sheet information, forecasts and comparisons against budgets; and
- regular updates to the Board from management on insurance, litigation, people and health and safety matters.

Segregation of duties, authorisation limits and other key internal controls are designed into both system-based and manual processes. These arrangements are reviewed periodically by management and external auditors to ensure they remain appropriate.

Financial Planning and Monitoring

The Group sets annual budgets, which together with three-year plans are subject to Board approval. The Board reviews business performance when it meets.

Summary financial information, including actual performance versus budget and expected future performance, is provided to all Board members in the BoardPacks system.

Policies, Procedures and Authorisation Limits

The programme to define, create and embed Group-wide policies in key areas was enhanced throughout 2019. Policies and documented procedures in place include:

- Delegated authority limits;
- Group anti-bribery and corruption policy;
- Group people policies;
- Group health and safety policies;
- Group standards of business conduct. All employees are required to acknowledge that they have read and understood this policy; and
- Group whistleblowing policy. This policy continues to be internally promoted. In 2019 all employees will be required to acknowledge that they have read and understood the policy.

Risk Management

The approach to risk management, risk appetite and the principal risks themselves are set out on pages 26 and 27.

Internal Audit

The Group has retained an internal auditor from an external firm, Saffery Champness LLP, to undertake a systems analysis who gave a presentation to the Board noting where action had been taken to address its key findings in the previous year.

Remuneration

Remuneration is addressed separately in the report of the Remuneration Committee and the Directors' Remuneration Report on pages 49 to 53.

Corporate Governance Report continued

Relations with Shareholders

Communication between the Company and its shareholders is an essential element of a sound governance framework. The Chief Executive Officer and Chief Financial Officer provide the key focus for engagement with shareholders and prospective investors. During the year, a programme of meetings with analysts and institutional shareholders took place. Investors and analysts are also shown demonstrations of some of the Group's key forthcoming and existing products from time to time. Feedback from these meeting and regular market updates prepared by the Company's broker are presented to the Board to ensure the Directors have a good understanding of shareholders' views. The Chairman and Non-executive Directors are also available separately to shareholders as and when required. Feedback from any such communications is provided to the Board at the next scheduled meeting. The Company has a dedicated investors section on its website, http://focusriteplc.com/, together with a wide range of information on the Group's activities, including all regulatory announcements. The AGM will be held at 1 Finsbury Circus, Finsbury, London EC2M 7SH, on Friday 20 December 2019 at 12:00pm and I would like to take this opportunity to encourage shareholders to attend. 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.

	Number of Audit Committee meetings attended
Non-executive Directors	
David Bezem	5/5
Naomi Climer	5/5
Paul Dean	5/5

	Number of Remuneration Committee meetings attended
Non-executive Directors	
David Bezem	4/4
Naomi Climer	4/4
Paul Dean	4/4

	Number of Nomination Committee meetings attended
Non-executive Directors	
David Bezem	1/1
Naomi Climer	1/1
Paul Dean	1/1

Audit Committee Report

Dear shareholder,

On behalf of the Board, I am pleased to present the Audit Committee report for the year ending 31 August 2019.

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 Jeremy Wilson may attend Committee meetings by invitation if required. The Committee met five 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 Committees of 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.

Members of the Committee

Paul Dean (as Chair)
David Bezem
Naomi Climer

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;
- review of the interim results and proposed interim dividend;
- 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 and the proposed final dividend;
- review of the Annual Report to ensure that it is fair, balanced and understandable;
- meeting with the external auditor without management present;
- assessment of the need for an internal audit function, the agreement of the internal audit programme and review of the internal audit reports; and
- review of the IT position of the Group with particular regard to GDPR and cybersecurity.

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 9 of the Group's financial statements.

The Audit Committee also assesses the external auditor's independence and performance. KPMG LLP has complied with the partner rotation requirement set out in Ethical Standards for Auditors. The most recent rotation took place last year with Michael Froom becoming the audit partner. 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.

Audit Committee Report continued

Significant financial judgements and estimates

The significant judgement reviewed by the Committee in respect of the year under review was 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 US where the Group has a single distributor: American Music & Sound ('AMS').

The Group's subsidiary, Focusrite Novation Inc ('FNI') 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.

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

Revenue recognition

The Committee, recognising that, on occasion, credit notes are issued in a period following the sale of product, considered the estimation of the required credit note reserve. The credit note reserve needed to cover items such as warranty claims, retrospective rebates or other post-sale claims that resellers might have on the Group. The Committee members were satisfied that Management had reviewed the calculations thoroughly and accepted the estimate of the credit note reserve.

Capitalisation and recoverability of internally-generated intangible asset

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 and the period over which the costs were amortised and concluded that both were acceptable. In addition, the Committee examined the amortisation commencement policy and agreed that the start of the amortisation should be specific to each project, rather than applying a general policy. This represented a more sophisticated method of calculation than that used prior to FY18 and, when calculated, this highlighted that a reduction in the accumulated amortisation charge was appropriate. The adjustment was made within non-underlying items in FY18, as disclosed in note 13.

Acquisition accounting and recoverability of investment

Following the acquisition of ADAM Audio in July 2019, 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. PwC LLP was engaged to assist with this valuation to determine which assets were identifiable and the relevant valuation methodology to be used.

Audit process

The external auditor prepares an audit plan for its review of the full-year financial statements. 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 procedures without one. However, during both FY18 and FY19, the Committee commissioned an internal audit review by Saffery Champness LLP. In FY18, the review tested the systems and internal controls within the main transactional processes including sales, stock purchases, expenses, salary payments and bank reconciliations. There were some recommendations made and the Group is implementing improvements. During FY19, the review tested the application of the delegation of authority and the robustness of internal stock procedures. With regard to the delegation of authority, the major conclusions were that the controls around customer contracts, recruitment, payroll, payment approval, stock purchases and foreign currency hedging were all operating in line with the policies. There were some minor observations regarding IT expenditure and employee expense claims and improvements are being implemented. With regard to the internal stock procedures, the testing of stock purchases and sales signalled that the controls were operating satisfactorily. There were two minor observations around valuation and written procedures which have been improved.

Risk management and internal controls

As described on page 41 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 a procedure in place for detecting fraud, and systems and controls to prevent a breach of anti-bribery legislation. The Group Finance Manual sets out the procedures to which employees must adhere and is aimed at reducing the risk of fraud occurring. The Group is committed to a zero-tolerance position with regards to bribery. During the year, no incidents were reported to the Committee.

Paul Dean

Audit Committee Chairman

19 November 2019

Directors' Report

For the year ended 31 August 2019

The Directors present their report and audited financial statements for the year ended 31 August 2019.

This report contains certain statutory, regulatory and other information and incorporates, by reference to, certain disclosures included elsewhere in this Annual Report.

General Information and Principal Activities

Focusrite plc ('the Company' or 'the Parent Company') is an AIM quoted company. The Company is the parent of a number of trading subsidiary companies. The principal trading subsidiaries are:

- Focusrite Audio Engineering Limited and its subsidiaries
  - Focusrite Novation, Inc based in Los Angeles, supports the US market with marketing, customer support and retail channel communication and
  - Focusrite Novation Asia Limited based in Hong Kong, provides the region with sales management, marketing and customer support.
- ADAM Audio GmbH, a leading manufacturer of studio monitors, and its subsidiaries. The Company acquired ADAM Audio GmbH's Parent Company, Pro Audio Beteiligungs GmbH, in July 2019.

The Company is incorporated in the UK and registered in England and Wales with company number 09312676. The address of its registered office is at Windsor House, Turnpike Road, High Wycombe, Buckinghamshire HP12 3FX.

Capital Allocation

The Company seeks to deliver future earnings growth and strong cash returns. The Board has a capital allocation policy:

- **Reinvestment for growth –** we invest in constant product innovation to drive growth in our core markets. A key example was the launch of the Scarlett 3rd Generation range in 2019.
- **Regular returns to shareholders** – we pay a regular dividend to shareholders, currently representing approximately 20% of underlying adjusted earnings.
- **Acquisition** – we supplement our organic growth by acquiring companies with promising technologies and in markets adjacent to, and consistent with, our current capabilities. In 2019 we acquired the Pro Audio Beteiligungs GmbH group which added the ADAM Audio monitors to our portfolio.
- **Balance sheet leverage and return of excess capital** – we will maintain an efficient balance sheet, appropriate to our investment requirements and mindful of the preferences of all our stakeholders.

Results and Dividends

Subject to shareholder approval at the AGM on 20 December 2019, the Board proposes paying a final dividend of 2.6p per ordinary share (2018: 2.3p) on 31 January 2020 to the shareholders on the register at the close of business on 10 January 2020.

Directors and their Interests

The Directors of the Company who served during the year ended 31 August 2018 and subsequently are as follows:

Phil Dudderidge
Chairman

Tim Carroll
Chief Executive Officer

Jeremy Wilson
Chief Financial Officer

David Bezem
Non-executive Director

Naomi Climer
Non-executive Director

Paul Dean
Non-executive Director

The Executive Directors have service contracts in place with a six-month notice period.

Paul Dean and David Bezem were appointed Non-executive Directors of the Group 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 the date of their re-election at the AGM held on 10 January 2018. Naomi Climer was appointed a Non-executive Director on 25 May 2018 for an initial period of three years. Details of each Director's contractual arrangements, including notice periods, are included as part of the Directors' Remuneration Report on pages 49 to 53 and that information is incorporated by reference into the Directors' Report.

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 annual report on remuneration on pages 49 to 53.

The Chairman owns a small property which the Group leases. Details are in note 34. 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.

Directors' Indemnities and Liability Insurance

As permitted by the Articles of Association, in accordance with Section 234 of the Companies Act 2006, the officers of the Company and its subsidiaries are indemnified in respect of proceedings which might be brought by a third party. No cover is provided for Directors and officers in respect of any fraudulent or dishonest actions. No such indemnities have been granted. The Company maintains Directors' and officers' liabilities insurance to provide appropriate cover for any legal action brought against its Directors.

Share Capital

As at 31 August 2019 and 31 October 2019 the Company had 58,111,639 (31 August 2018: 58,111,639) ordinary shares of £0.001 each in issue. 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 on the Company's website.

The Company has previously established an Employee Benefit Trust ('EBT') to hold shares in the Company to facilitate share-based emolument payments and the Group Share Incentive Plan ('CSOP'). As at 31 August 2019 the EBT held 782,652 (2018: 1,159,021) 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 30 to the financial statements.

The rules of the CSOP set out the consequences in the event of a change of control.

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.

Substantial Interests in Shares

The Company has been notified of the following substantial interests in 3% or more in its ordinary shares:

	13 August 2019 %
Focusrite plc Directors & Related Parties (London)	36.23
Canaccord Genuity Wealth Mgt (London)	10.50
Charles Stanley (London)	10.25
Sanford DeLand Asset Mgt (Manchester)	9.98
Liontrust Asset Mgt (London)	4.89
Schroder Investment Mgt (London)	3.85

Financial Risk Management

The Group uses financial instruments to manage certain types of risks, including those relating to credit and foreign currency exchange. The Group's objectives and policies on financial risk management including information on liquidity, capital, credit and risk can be found in note 32 of the financial statements and in the risks section on pages 26 and 27.

Future Business Developments

The Group's business development strategy is explained on pages 12 and 13 and is incorporated into this report by reference.

R&D

Research and development expenditure in the year amounted to £5.8 million (2018: £4.3 million) as the Group continues to invest in its R&D activities.

Employees

The Group's policy is to ensure adequate provision for the welfare and health and safety of its employees and of other people who may be affected by our activities. 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 employees are treated fairly and equally. The Group treats applications for employment equally, having regard to their 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 the risk of bribery and corruption. A formal anti-bribery policy is in place and training is undertaken annually. The policy is reviewed on a regular basis by the Audit Committee. The Group has a whistleblowing policy, which is reviewed annually by the Audit Committee.

Modern Slavery Act

The Group is committed to conducting business responsibly. We seek 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 and can be found at http://focusriteplc.com/files/Focusrite+Anti-Slavery+and+Human+Trafficking+Statement.pdf.

Directors' Report continued

For the year ended 31 August 2019

Political Donations

No political donations were made in 2019 (2018: £nil).

Going Concern

The Group's activities and an outline of the risk factors and developments taking place in relation to its products, services and marketplace are considered in the Strategic Report on pages 2 to 33. The revenue, trading results and cash flows are explained in the financial review on pages 20 to 24. Note 32 to the financial statements sets out the Group's financial risks and the management of capital risks.

The Group is profitable and expects to continue to be so, with significant cash resources, a high and continuing level of recurring revenue and also high levels of cash conversion expected for the foreseeable future. The Group has in place a £10 million revolving credit facility with HSBC expiring 4 December 2020. The Directors considered the going concern assumption and after careful enquiry and review of available financial information, including detailed projections of profitability and cash flows for the next three years, the Directors believe that the Group has adequate resources to continue to operate for the foreseeable future 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.

Auditor and 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 re-appointed and, in accordance with Section 489 of the Companies Act 2006, a resolution for re-appointment will be proposed at the AGM.

Corporate Governance and Employee Information

The Company's statement on corporate governance can be found in the corporate governance report on pages 38 to 42. The corporate governance report forms part of this Directors' report and is incorporated into it by cross-reference.

AGM Notice

The notice convening the AGM to be held on 20 December 2019, together with an explanation of the resolutions to be proposed at the meeting, will be contained in a separate circular to shareholders and will be available on the Company's website at http://focusriteplc.com/investors/aim-rule-26.

By order of the Board

Francine Godrich

Company Secretary

Directors' Remuneration Report

Introduction

I am pleased to introduce the Directors' Remuneration Report ('DRR') for the year ended 31 August 2019. The Group has had another good year which is no mean achievement in view of the range of challenges during the last financial year. Profits achieved budget and met the targets set by the Remuneration Committee and cash generation significantly exceeded expectations. This is reflected in the annual bonus awards which have been made. The Committee believes that the structure of the remuneration arrangements has continued to work well in aligning executives' and shareholders' interests.

As signalled in my letter in last year's DRR, we planned to review the overall quantum of the Executive Directors' remuneration during the 2019 financial year for which purpose we commissioned Mercer Kepler to carry out an independent benchmarking analysis in order to help guide the Remuneration Committee in its decision making. We carried out this exercise during the year in order that any new arrangements on which the Remuneration Committee were to decide could be put in place for the beginning of the 2020 financial year. Tim Carroll will soon have been Chief Executive for three years, having joined Focusrite on 1 January 2017. For this reason, the Remuneration Committee felt this was an appropriate time to review the quantum of both his and Jeremy Wilson's remuneration. As a result of this exercise, the Remuneration Committee decided to increase both Tim Carroll's and Jeremy Wilson's base salaries. The details of these increases, together with the reasons for the Committee's decision, are set out below in the section 'Base salary'.

As a company admitted to AIM, Focusrite Group plc is not required to prepare a DRR. However, the Board supports the principle of transparency and has therefore prepared this report in order to provide useful information to shareholders on its executive remuneration arrangements. Accordingly, although not required to comply with Schedule 8 of the Large and Medium sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the 'Regulations'), the Company has used these Regulations as guidance for presenting selected disclosures where it considers these to be relevant, helpful and appropriate. Accordingly, this report sets out information about the remuneration of the Directors of the Company for the year ended 31 August 2019 and, as appropriate, the following year.

Members of the Committee

David Bezem (Chairman)
Naomi Climer
Paul Dean

Remuneration Committee

The members of the Remuneration Committee are David Bezem (Chairman), 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 42.

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 policy for 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 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. The Committee members do not participate in any bonus, share awards or pension arrangements.

Remuneration policies

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

The remuneration package for each Executive Director is designed to include performance and non-performance-related elements. 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-related annual bonus;
- Long-term share incentives;
- Pension contribution; and
- Benefits.

Directors' Remuneration Report continued

Base salary

Base salaries for the Executive Directors are reviewed annually and determined taking account of individual performance, scope of responsibility, relative pay levels within the Group and reference to external market data, as well as the scale and complexity of the Group. Phil Dudderidge's, Tim Carroll's and Jeremy Wilson's base salaries for the year ended 31 August 2019 were increased by 2% over their base salaries in the preceding financial year. Phil Dudderidge's base salary has again been being increased by 2% for the 2020 financial year.

As a result of the review described in the section 'Introduction' above, the Remuneration Committee decided to increase Tim Carroll's base salary from £223,700 to £285,000 per annum and Jeremy Wilson's from £178,700 to £215,000 per annum, effective from the beginning of the 2020 financial year. No other changes have been made to their remuneration arrangements. In deciding to make these changes, the Remuneration Committee took account of the significant increase in the scale of the Group over the last three financial years during which time increases in their base salary have been inflationary only (2% per annum). Compared with the financial year ending 31 August 2016, revenue has increased by approximately 56% and profitability, as measured by adjusted profit before tax, has nearly doubled. In addition, the Group has become more complex and more international with new or larger offices opening in the US and Hong Kong, and has made its first material acquisition. We hope and expect that this progress will continue in future years. In addition, the Board has been very pleased with the performance of both Tim Carroll, since he joined Focusrite, and of Jeremy Wilson, both of whom have been key to the success of the Group. The proposed increases in base salary were also considered in the context of the benchmarking analysis referred to above and the Remuneration Committee concluded that the higher base salaries (and resulting levels of overall remuneration) were appropriate for their roles. No further material changes to the quantum of Tim Carroll's or Jeremy Wilson's base salary are currently planned.

The details of the Executive Directors' base salaries for the 2019 financial year are set out in the table on page 53.

Performance-related annual bonus

Tim Carroll and Jeremy Wilson were awarded a performance based discretionary annual bonus for the financial year ended 31 August 2019. Phil Dudderidge does not receive an annual bonus. For both Tim Carroll and Jeremy Wilson, the bonus was based on three performance criteria: EBITDA targets, which represented 70% of the maximum bonus; cash targets at the year end, which represented 20% of the maximum bonus; and a new non-financial bonus criterion based on 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.

The maximum cash bonus for both Tim Carroll and Jeremy Wilson was set at 100% of annual base salary for the 2019 financial year, as in preceding years. In addition, Tim Carroll and Jeremy Wilson 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 was subject to the condition that both the shares they elected to receive out of their cash bonus and the matching shares would be held for not less than two years, including if they were no longer employed by the Company, subject only to satisfying any tax payments arising in respect of this remuneration. Again, this arrangement was the same as in preceding financial years.

As a result of the excellent performance of the business in the year ended 31 August 2019, Tim Carroll and Jeremy Wilson were both awarded 78.5% of the maximum cash bonus to which they were entitled. The table below shows the upper and lower performance boundaries, the targets and the actual cash bonuses achieved for the three bonus criteria. The amounts shown in the table are before taking account of any elections to receive a portion in shares.

		Performance range Below which no bonus is paid and above which no additional bonus is paid, and calculated on a straight-line basis between Threshold and Target as well as between Target and Maximum			
	Performance criterion	**Lower boundary**	**Target**	**Upper boundary**	**Actual**
Tim Carroll	EBITDA	£15.5m	£16.8m	£17.7m	£17.0m[1]
	Cash bonus entitlement	£0	£93,954	£156,590	£108,481
	% salary	0%	42%	70%	48%
	Year-end cash balance	£22.8m	£27.1m	£30.0m	£30.9m[2]
	Cash bonus entitlement	£0	£26,844	£44,740	£44,740
	% salary	0%	12%	20%	20%
	Strategic bonus cash settlement	£0	£13,422	£22,370	£22,370
	% salary	0%	6%	10%	10%
	Total cash bonus	£0	£134,220	£223,700	£175,591[3]
Jeremy Wilson	EBITDA	£15.5m	£16.8m	£17.7m	£17.0m[1]
	Cash bonus entitlement	£0	£75,054	£125,090	£86,659
	% salary	0%	42%	70%	48%
	Year-end cash balance	£22.8m	£27.1m	£30.0m	£30.9m[2]
	Cash bonus entitlement	£0	£21,444	£35,740	£35,740
	% salary	0%	12%	20%	20%
	Strategic bonus cash settlement	£0	£10,722	£17,870	£17,870
	% salary	0%	6%	10%	10%
	Total cash bonus	£0	£107,220	£178,700	£140,269[3]

1 EBITDA is calculated excluding the non-underlying costs associated with the acquisition of the ADAM Audio business (also see table on page 22). It also excludes the profit generated by ADAM Audio in the period between its purchase on 16 July 2019 and the end of the financial year.

2 The cash balance excludes the cash cost associated with the purchase of ADAM Audio comprising the £16.2 million purchase cost plus the non-underlying costs paid up to the year end, less adjustments for net working capital and a holdback relating to post completion actions transferring the ownership of trademarks.

3 Tim Carroll and Jeremy Wilson have elected to take an amount equivalent to 15% and 25% respectively 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 below.

For the financial year ending 31 August 2020, a similar structure is being adopted other than the year end cash balance target is being replaced by one based on free cash flow as a proportion of revenue. The details of the bonus targets for the 2020 financial year will be set out in next year's DRR to the extent they are not commercially sensitive.

Long-term share incentives

Awards vesting following the end of the 2019 financial year

An award of options under the Company's Enterprise Management Incentive Plan ('EMI Plan') was made to Jeremy Wilson prior to the Company's flotation on AIM when he joined Focusrite in September 2014. This EMI Plan award has three tranches, each in respect of a three-year performance period, running respectively to the end of the 2017, 2018 and 2019 financial years. Accordingly, the third and final tranche has now reached the end of its performance period and 133,334 shares, representing the maximum number of shares under this tranche of the award have vested. These awards have been satisfied out of those owned by the Employee Benefit Trust ('EBT') established prior to the flotation on AIM. Details of these awards are set out in the table below:

		Three years to		
		31 August 2017	**31 August 2018**	**31 August 2019**
Vesting criteria	EPS CAGR[1]	12.5% to 22.5% or greater	12.5% to 22.5% or greater	12.5% to 22.5% or greater
	Exercisable options	0 to 133,333	0 to 133,333	0 to 133,334
	Exercise price	14.6p	14.6p	14.6p
	Vesting (%)	68.5%	60.3%	100.0%
	Shares vesting	91,295	80,345	133,334

1 Compound Annual Growth Rate.

Three-year share awards made to other senior management, known as the Operations Board, under the Company's Performance Share Plan ('PSP') in 2016 have also reached the end of their performance period and are due to vest on 24 November 2019 resulting in the grant of 37,733 shares in total. These will also be satisfied out of the EBT.

Directors' Remuneration Report continued

Long-term share incentives continued

Awards made during the 2019 financial year

Awards under the PSP were made to Tim Carroll and Jeremy Wilson following the announcement of results for the 2018 financial year. Awards were also made to the members of the Operations Board. Details of these awards are set out in the table below:

Vesting criteria	Performance period	To FY21
	Three-year EPS CAGR[1]	10% to 18% or greater
	Proportion of award vesting	20% to 100%
	Exercise price	0.1p
Tim Carroll	Number of options granted	51,722
Jeremy Wilson	Number of options granted	41,318
Operations board	Number of options granted	58,746

1 Compound Annual Growth Rate.

Awards to be made in the 2020 financial year

Following the announcement of results in respect of the 2019 financial year, it is intended that awards will be granted under the PSP to Tim Carroll and to Jeremy Wilson in respect of the three-year performance period to the end of the 2022 financial year. These awards will be worth a maximum of 100% of base salary at the time of grant as in previous years, have the same vesting criteria as those set for the awards made last year and are subject to malus and clawback provisions. Awards will also be made to the members of the Operations Board. Details of all awards made in the 2020 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 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 and the majority date from before the flotation on AIM in December 2014. For this reason, as set out in last year's DRR, a new scheme was introduced in the 2018 financial year for the benefit of employees other than the CEO, CFO and the members of the Operations Board. 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 will vest in equal tranches after three, four and five years. The aggregate number of options awarded in the 2019 financial year under this new scheme was 230,196.

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 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 and actual dilution as at 31 August 2019:

Plan	Maximum number of shares relating to award	% of issued share capital
Tim Carroll – PSP	121,898	0.21%
Jeremy Wilson – EMI Plan	133,334	0.23%
Jeremy Wilson – PSP	97,382	0.17%
Operations Board – PSP	119,673	0.20%
Other general employee share option plans	1,240,911	2.14%
Options outstanding at end of period	1,713,198	2.95%
Less: unallocated shares held in EBT[1]	(782,652)	(1.35%)
Potential net dilution	930,546	1.60%

1 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. In addition, at 31 August 2019, the EBT also held 18,795 shares that had been allocated but not issued to the shareholders prior to the year end. Therefore, the total number of shares held by the EBT at 31 August 2019 was 801,447.

Pension contribution

Tim Carroll and Jeremy Wilson 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

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 the date of their re-election at the AGM held on 10 January 2018. Naomi Climer was appointed a Non-executive Director on 25 May 2018 for an initial period of three years.

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

Directors' emoluments table (audited)

		Salary/fees £'000	Other taxable benefits £'000	Annual bonus £'000	Pension contribution £'000	Total £'000
Executive Directors						
Tim Carroll[1]	FY18	219	8	252	24	503
	FY19	224	8	209	24	465
Jeremy Wilson[2]	FY18	175	2	219	23	419
	FY19	179	2	185	23	389
Phil Dudderidge	FY18	174	4	–	–	178
	FY19	178	5	–	–	183
Non-executive Directors						
David Bezem[3]	FY18	38	–	–	–	38
	FY19	40	–	–	–	40
Paul Dean[3]	FY18	38	–	–	–	38
	FY19	40	–	–	–	40
Naomi Climer[4]	FY18	9	–	–	–	9
(appointed 25 May 2018)	FY19	35	–	–	–	35

1 The bonus for Tim Carroll comprises £142,036 paid in cash (FY18: £186,405), £33,555 taken as shares (FY18: £32,895) and £33,555 in the form of matching shares (FY18: £32,895).

The pension contribution was taken as additional taxed income net of the appropriate percentage of employer's national insurance which would not otherwise have fallen due, and Tim Carroll elected to use £4,858 (FY18: £4,858) of this in respect of the costs of leasing a car.

2 The bonus for Jeremy Wilson comprises £95,594 paid in cash (FY18: £131,400), £44,675 taken as shares (FY18: £43,800) and £44,675 in the form of matching shares (FY18: £43,800).

The pension contribution was taken as additional taxed income net of the appropriate percentage of employer's national insurance which would not otherwise have fallen due.

3 The remuneration for David Bezem and Paul Dean each comprises a basic fee of £35,000 (£32,100 until 25 May 2018) per annum for their roles as Non-executive Directors of the Group and an additional £5,000 per annum for their roles as Chairmen of Board Committees.

4 Naomi Climer's basic fee for her role as Non-executive Director of the Group was £35,000. In FY18 she was employed for three months of the financial year.

Approval

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

David Bezem

Chairman of the Remuneration Committee

19 November 2019

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 Financial Reporting Standards as adopted by the EU (IFRSs as adopted by the EU) and applicable law and they have elected to prepare the Parent Company financial statements with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), 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;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- 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 2019 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position and Parent Company Balance Sheet, Consolidated and Parent 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 2019 and of the Group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- 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:	£600,000 (2018: £560,000)
group financial statements as a whole	4.9% (2018: 4.8%) of profit before tax
Coverage	100% (2018:100%) of group profit before tax

Key audit matters		vs 2018
Recurring risks	Capitalisation and recoverability of internally-generated intangible asset	▲
	Parent company investment impairment risk	◀▶
Event driven	**New:** Acquisition accounting	▲
	Impact of Brexit	▲

Independent Auditor's Report

To the Members of Focusrite plc continued

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, 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
The impact of uncertainties due to the UK exiting the European Union on our audit *Refer to page 26 (principal risks), page 54 (viability statement), page 43 (Audit Committee Report), page 72 (accounting policy) and page 79 (financial disclosures).*	**Unprecedented levels of uncertainty:** All audits assess and challenge the reasonableness of estimates, in particular as described in capitalisation of development costs below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's future prospects and performance. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: – **Our Brexit knowledge:** We considered the directors' assessment of Brexit-related sources of risk for the group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks. – **Sensitivity analysis:** When addressing the key audit matters affected (Capitalisation and recoverability of internally-generated intangible asset and Parent company investment impairment risk) and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. – **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on capitalisation of development costs, we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks.

	The risk	Our response
Acquisition accounting (£15.3 million; 2018: £nil) *Refer to page 44 (Audit Committee Report), page 77 (accounting policy) and page 78 (financial disclosures).*	**Subjective valuation:** During the year ended 31 August 2019, the Group acquired a 100% equity interest in Pro Audio Beteiligungs GmbH (known as ADAM Audio) for a total consideration of £15.3 million. The fair values of identifiable net assets acquired on the date of acquisition amounted to £13.9 million and goodwill arising from the acquisition amounted to £1.4 million. The Group exercised both, judgment 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 the relevant accounting standard resulting in inappropriate under or over valuation of amortisable intangibles, with consequential impacts on goodwill.	Our procedures included: – **Controls design:** We performed an evaluation of the Group's procedures for calculating the accounting entries relating to the acquisition and the review of figures provided by experts; – **Assessment of management's expert:** We carried out an assessment as to whether the experts engagement by management had the necessary competence to carry out the acquisition accounting work, and whether the scope was in line with our expectations. – **Our sector experience:** We benchmarked the discount rates against peers in the same industry. – **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, cash flows and their growth rates. This involved recalculating the discount rates and performing sensitivity analysis on discount rates and cash flows and their growth. We also evaluated management ability to forecast by comparing previous years budgets to actual results. – **Assessing transparency:** We assessed the adequacy of the Group's disclosures in respect of the business combinations in Note 5 to the financial statements.

Independent Auditor's Report

To the Members of Focusrite plc continued

2. Key audit matters: our assessment of risks of material misstatement continued

	The risk	Our response
Capitalisation and recoverability of internally-generated intangible asset (£3.8 million capitalised in year; 2018: £2.9 million capitalised in year) (£9.2 million net book value; 2018: £4.6 million net book value) *Refer to page 44 (Audit Committee Report), page 72 (accounting policy) and page 77 and 86 (financial disclosures).*	**Accounting application:** The Group incurred significant research and development costs in the year, some of which were considered to meet the criteria for capitalisation as development costs. There is judgement involved in determining whether a particular project or activity has met these criteria and therefore must be capitalised. The complexity in this judgement means that there is a risk that capitalisation occurs on projects that do not meet these criteria or, conversely, that development costs meeting the criteria for capitalisation are expensed. In particular, the criteria requiring the most significant judgement for this Group is the ability to measure reliably the expenditure attributable to the specific projects and demonstration of how the projects will generate future earnings and the judgement required in assessing the useful economic life of such capitalised development expenditure. **Subjective estimate:** The Group operates in an evolving industry in terms of technology and customer demand. These factors can affect the useful economic life of capitalised development costs. Estimation is required in assessing the useful economic life of such capitalised development expenditure. The effect of these matters is that, as part of our risk assessment, we determined that assessment of the useful economic life of development costs has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.	Our procedures included: – **Accounting analysis:** Assessing the adequacy of the Group's capitalisation methodology based on our knowledge of the Group and applicable accounting standards. – **Tests of detail:** We tested a sample of the capitalised costs back to source data to ensure the amounts being capitalised are accurate. Our procedures included testing whether the costs incurred met the criteria for capitalisation by obtaining the Directors' analysis of all costs incurred and those that had been capitalised and considering on which development activity they had been incurred, together with plans to complete the development activity; – **Testing application:** In order to test each project's ability to generate future earnings, we gained an understanding of the respective projects and the forecast demand for the products through inquiry with the product development director and challenged this assessment by comparison to market trends; – **Test of detail:** We have verified the useful economic life through review of historical data and comparisons to market trends; and – **Assessing transparency:** Assessing the adequacy of the Group's disclosures about the judgements in concluding that the capitalisation criteria had been met and the degree of estimation involved in capitalising development costs.
Recoverability of investment in subsidiaries (£29.9 million; 2018: £14.6 million) *Refer to page 101 (accounting policy) and page 104 (financial disclosures).*	**Low risk, high value:** The carrying amount of the parent company's investments in subsidiaries represents 83% (2018: 47%) of the parent Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent Company financial statements, this is considered to be the area that had the greatest effect on our overall parent Company audit.	Our procedures included: – **Tests of detail:** Comparing the carrying amount of 100% of investments in the total investment balance with the relevant subsidiaries' balance sheets to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making. – **Assessing subsidiary audits:** Considering the results of our audit work on the profits and net assets of those subsidiaries.

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 £600,000 (2018: £560,000), determined with reference to a benchmark of Group adjusted profit before taxation normalised [to exclude this year's non-underlying items as disclosed in note 14 (of which it represents 4.9%) (2018: 4.8% Group adjusted profit before taxation). Materiality for the parent company financial statements as a whole was set at £480,000 (2018: £300,000), determined with reference to a benchmark of company total assets, of which it represents 1% (2018: 1%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £30,000 (2017: £28,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's five (2018: four) reporting components, three were subject to audit for group reporting purposes (2018: two), and two (2018: two) were subject to specified risk-focused audit procedures related to costs. The latter were not individually financially significant enough to require a full scope audit for group purposes, but were included in the full 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.

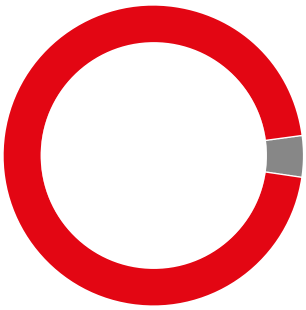
The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back.

The Group team approved the component materiality's which ranged from £330,000 to £480,000 (2018: £300,000 to £480,000), having regard to the mix of size and risk profile of the Group across components. The work on one (2018: nil) of the components subject to full scope audit was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team.

The Group team visited one (2018: nil) full scope audit component location in Germany to assess the audit risk and strategy. Telephone conference meetings were also held with this component auditor. 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.

Profit before tax

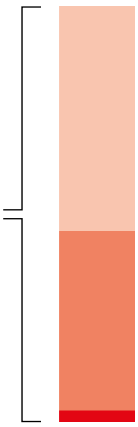
£13.0m (2018: £11.7m)



Profit before tax
Group materiality

Group Materiality

£600,000 (2018: £560,000)

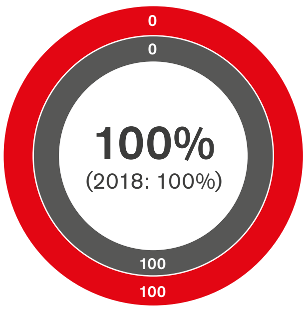


£600,000
Whole financial statements materiality (2018: £560,000)

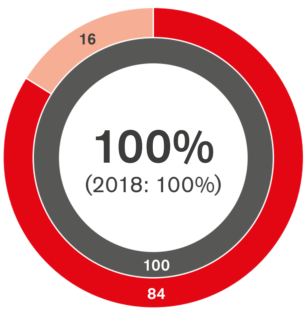
£480,000
Range of materiality at 5 components (£330,000 to £480,000) (2018: £300,000 to £480,000)

£30,000
Misstatements reported to the audit committee (2018: £28,000)

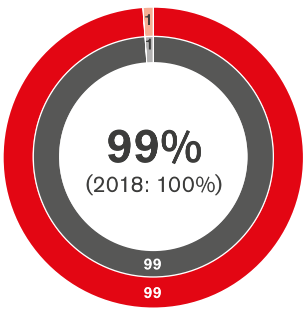
Group revenue



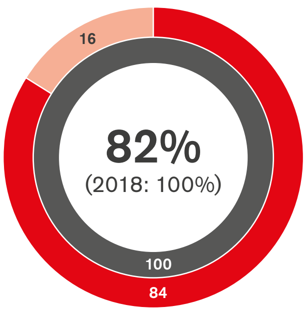
Group profit before tax



Group total assets



Group profit before exceptional items and tax



Full scope for group audit purposes 2019
Specified risk-focused audit procedures 2019
Full scope for group audit purposes 2018
Specified risk-focused audit procedures 2018
Residual components

Independent Auditor's Report

To the Members of Focusrite plc continued

4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group'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").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. 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 absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's 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 impact of Brexit on the Group's supply chain.
- The impact of increased US and China import tariffs.

As these were risks that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit and the erosion of customer or supplier confidence, which could result in a rapid reduction of available financial resources.

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. 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.

6. 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.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 54, 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.

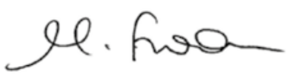
Auditor's responsibilities

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.

8. 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

19 November 2019

Consolidated Income Statement

For the year ended 31 August 2019

	Note	2019 £'000	2018 £'000
Revenue	6	84,665	75,121
Cost of sales		(48,899)	(43,447)
Gross profit		35,766	31,674
Administrative expenses		(22,954)	(19,732)
EBITDA (non-GAAP measure)		17,197	15,485
Depreciation and amortisation		(3,648)	(3,872)
Non-underlying items	14	(737)	329
Operating profit		12,812	11,942
Finance income	10	246	4
Finance costs	11	(45)	(274)
Profit before tax		13,013	11,672
Income tax expense	15	(1,349)	(1,199)
Profit for the period from continuing operations		11,664	10,473
Earnings per share			
From continuing operations			
Basic (pence per share)	17	20.4	18.4
Diluted (pence per share)	17	20.1	18.1

The accompanying notes on pages 67 to 98 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 August 2019

	Note	2019 £'000	2018 £'000
Profit for the period (attributable to equity holders of the Company)		11,664	10,473
Items that may be reclassified subsequently to the income statement			
Exchange differences on translation of foreign operations		42	19
Profit/(loss) on forward foreign exchange contracts designated and effective as a hedging instrument		(245)	541
Tax on hedging instrument	24	47	(106)
Total comprehensive income for the period		11,508	10,927
Total comprehensive income attributable to:		11,508	
Equity holders of the Company		11,508	10,927

The accompanying notes on pages 67 to 98 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 August 2019

	Note	2019 £'000	2018 £'000
Assets			
Non-current assets			
Goodwill	18	5,271	419
Other intangible assets	19	18,832	5,620
Property, plant and equipment	20	1,602	1,275
Total non-current assets	7	25,705	7,314
Current assets			
Inventories	22	15,182	11,391
Trade and other receivables	23	18,188	13,310
Cash and cash equivalents	29	15,505	22,811
Derivative financial instruments	32	–	100
Total current assets		48,875	47,612
Total assets		74,580	54,926
Equity and liabilities			
Capital and reserves			
Share capital	27	58	58
Share premium		115	115
Merger reserve	28	14,595	14,595
Merger difference reserve	28	(13,147)	(13,147)
Translation reserve	28	92	50
Hedging reserve	28	(152)	46
Treasury reserve	28	(1)	(1)
Retained earnings		51,827	41,731
Equity attributable to owners of the Company		53,387	43,447
Total equity		53,387	43,447
Current liabilities			
Trade and other payables	26	15,664	10,709
Current tax liabilities		430	427
Derivative financial instruments	32	188	–
Bank overdraft		627	–
Total current liabilities		16,909	11,136
Non-current liabilities			
Deferred tax	24	4,284	300
Derivative financial instruments	32	–	43
Total liabilities		21,193	11,479
Total equity and liabilities		74,580	54,926

The financial statements were approved by the Board of Directors and authorised for issue on 19 November 2019. They were signed on its behalf by:

Jeremy Wilson

Chief Financial Officer

The company number of Focusrite plc is 09312676

The accompanying notes on pages 67 to 98 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 August 2019

	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 2017	58	–	14,595	(13,147)	31	(389)	(3)	31,739	32,884
Profit for the period	–	–	–	–	–	–	–	10,473	10,473
Other comprehensive income for the period	–	–	–	–	19	435	–	–	454
Total comprehensive income for the period	–	–	–	–	19	435	–	10,473	10,927
Transactions with owners of the Company:									
Share-based payment deferred tax deduction in excess of remuneration expense	–	–	–	–	–	–	–	95	95
Share-based payment current tax deduction in excess of remuneration expense	–	–	–	–	–	–	–	698	698
New shares issued	–	115	–	–	–	–	–	–	115
Shares from EBT exercised	–	–	–	–	–	–	2	189	191
Share-based payments	–	–	–	–	–	–	–	216	216
Dividends paid	–	–	–	–	–	–	–	(1,679)	(1,679)
Balance at 1 September 2018	58	115	14,595	(13,147)	50	46	(1)	41,731	43,447
Profit for the period	–	–	–	–	–	–	–	11,664	11,664
Other comprehensive income for the period	–	–	–	–	42	(198)	–	–	(156)
Total comprehensive income for the period	–	–	–	–	42	(198)	–	11,664	11,508
Transactions with owners of the Company:									
Share-based payment deferred tax deduction in excess of remuneration expense	–	–	–	–	–	–	–	(238)	(238)
Share-based payment current tax deduction in excess of remuneration expense	–	–	–	–	–	–	–	310	310
Shares from EBT exercised	–	–	–	–	–	–	–	46	46
Share-based payments	–	–	–	–	–	–	–	348	348
Shares withheld to settle employees' tax obligations	–	–	–	–	–	–	–	(204)	(204)
Premium on shares issued in lieu of bonuses	–	–	–	–	–	–	–	175	175
Dividends paid	–	–	–	–	–	–	–	(2,005)	(2,005)
Balance at 31 August 2019	58	115	14,595	(13,147)	92	(152)	(1)	51,827	53,387

The accompanying notes on pages 67 to 98 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 August 2019

	Note	2019 £'000	2018 £'000
Operating activities			
Profit for the financial year		11,664	10,473
Adjustments for:			
Income tax expense	15	1,349	1,199
Net interest	10,11	(201)	270
Profit on disposal of property, plant and equipment		3	(14)
Amortisation of intangibles	19	2,936	2,804
Depreciation of property, plant and equipment	20	712	740
Share-based payments charge	30	348	216
Operating cash flows before movements in working capital		16,811	15,688
(Increase) in trade and other receivables		(4,203)	(358)
(Increase) in inventories		(696)	(3,057)
Increase in trade and other payables		2,681	2,989
Operating cash flows before interest and tax paid		14,593	15,262
Net interest received/(paid)		58	(36)
Income taxes paid		(825)	(478)
Cash generated by operations		13,826	14,748
Net foreign exchange movements		185	(226)
Net cash from operating activities		14,011	14,522
Investing activities			
Purchases of property, plant and equipment	20	(808)	(651)
Purchases of intangible assets	19	(4,210)	(3,880)
Proceeds from disposal of property, plant and equipment		25	19
Proceeds from disposal of other intangible assets		50	
Acquisition of subsidiary, net of cash acquired		(14,996)	–
Net cash used in investing activities		(19,939)	(4,512)
Financing activities			
Issue of equity shares		–	306
Equity dividends paid	16	(2,005)	(1,679)
Net cash used in financing activities		(2,005)	(1,373)
Net (decrease)/increase in cash and cash equivalents		(7,933)	8,637
Cash and cash equivalents at beginning of year		22,811	14,174
Cash and cash equivalents at end of year	29	14,878	22,811

The accompanying notes on pages 67 to 98 form part of these financial statements.

Notes to the Financial Statements

For the year ended 31 August 2019

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 2019 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 2019 are presented in Pounds ('GBP' thousands; £'000). This is the functional currency of the Company. The financial statements have been prepared in accordance with IFRS, International Accounting Standards ('IAS') and interpretations currently endorsed by the International Accounting Standards Board ('IASB') and its committees as adopted by the EU and as required to be adopted by UK companies.

The Company has elected to prepare its Parent Company accounts in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101').

These financial statements were authorised for issue by the Company's Board of Directors on 19 November 2019.

2 ADOPTION OF NEW AND REVISED STANDARDS

In the current year, the Group has applied the annual improvements to IFRS 2013-2015 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 2015–2017 cycle
- IFRS 16 Leases
- Amendments to IFRS 2 Share-Based Payments
- IFRIC 23 Uncertainty over Income Tax Treatments

Of these, only IFRS 16 is expected to have a material impact on the future financial statements of the Group since it would require the substantial majority of the Group's operating lease commitments (circa £2.5 million on an undiscounted basis as shown in note 25) to be brought on to the balance sheet, resulting in the recognition of significant lease assets and liabilities which would be depreciated and amortised separately. IFRS 16 will first apply to the Group for the financial year ending 31 August 2020.

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.

IFRS 16 Leases

IFRS 16 Leases is effective for annual periods beginning on or after 1 January 2019. The new standard replaces existing leases guidance, principally IAS 17 Leases.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use ('ROU') asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short term leases of 12 months or less and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Group plans to apply IFRS 16 initially on 1 September 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 September 2019, with no restatement of comparative information – which provides a reduction in depreciation charge over the remaining years of the lease.

Full retrospective application in the comparative year ending 31 August 2018 is optional. However, the Group will apply the modified retrospective approach from the transitional date, adjusting opening retained earnings at 1 September 2019 and not restating comparatives. This involves calculating the right-of-use asset and lease liability based on the present value of remaining lease payments on all applicable lease contracts as at the transition date.

Notes to the Financial Statements continued

For the year ended 31 August 2019

3 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

IFRS 16 Leases continued

IFRS 16 also has a number of practical expedients for first time adoption. The Group will utilise the following practical expedients at the transition date:

- apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- exclude initial direct costs from the measurement of the right-of-use asset on transition;
- use hindsight to determine the term;
- use onerous contract assessment under IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before transition instead of performing an impairment review under IAS 36 Impairment;
- for leases with a remaining term of less than 12 months at 1 September 2019, the short-term lease exemption in IFRS 16 will be taken; and
- leases comprising of both an asset and a non-lease service component will not be separated and both asset and service cost will be included in the calculation of the initial asset and liability.

Management has assessed the impact of IFRS 16 for Focusrite Audio Engineering Limited and subsidiaries and the overall impact on net assets and the net profit after tax is not expected to be material.

Due to the acquisition of Pro Audio Beteiligungs GmbH taking place close to the year end, the full impact of this business unit's leases is still being assessed. However, the impact on net assets and net profit for FY20 is not expected to be material.

Adoption of IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 was adopted by the Group on 1st September 2018, using the retrospective with the cumulative effect at the date of initial application method. For the majority, by volume and value, of the Group's contracts with customers there are no recognition or measurement differences between the new Standard and IAS 18, and therefore the impact of transition to the Group's revenue, profits and net assets is not material.

IFRS 15 applies a five-step model to the accounting for revenue from contracts with customers, based upon the principle that the Group should recognise revenue in a way that depicts the transfer of promised goods or services ('performance obligations') to customers, in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The revenue is apportioned to performance obligations using their relative stand-alone selling prices. See note 4 on the Estimates and Judgements applied on revenue recognition.

The Group's performance obligations consist of supplying of goods on a point in time basis.

Adoption of IFRS 9 'Financial Instruments'

IFRS 9 was adopted by the Group on 1 September 2018. The Standard introduced new requirements for the classification and measurement of financial assets, impairment of financial assets and hedge accounting. For the new impairment requirements, the Group recognises an 'Expected Credit Loss' ('ECL') for trade receivables under the Standard's 'simplified approach'. With regard to hedge accounting, all of the Group's hedging arrangements remain eligible for hedge accounting under IFRS 9. No adjustments have been made in respect of IFRS 9 to the Group's opening reserves at 1 September 2018 as an impact assessment concluded that the ECL impairment adjustment was immaterial to the Group by considering historic credit loss rates, determining that there are no indicators that the historic loss rates will change significantly and applying expected loss rates to opening balances.

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.

Going concern

The Group's business activities and position in the market are described in the Strategic Report. The Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertainties within the global economy. The Group has considerable financial resources, ongoing revenue streams and a broad spread of customers. As a consequence of these factors and having reviewed the current three-year plan and more detailed forecasts for the coming year, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. 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 2 to 33.

Earnings per share ('EPS')

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.

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.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds 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 in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain. Further information about the assumptions made in measuring fair values of the acquisition of a subsidiary is included in note 5.

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.

On disposal of a subsidiary, the attributable amount of goodwill is included in determining profit or loss on disposal.

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:

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

Notes to the Financial Statements continued

For the year ended 31 August 2019

3 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Nature of goods and services

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. Sales to distributors are made under contractual terms which mean that control is transferred when goods are shipped. The terms used for sales to resellers and sales to end-users mean that control is transferred when goods are delivered.

Sale of apps

Revenue from the download of apps is recognised upon confirmation from the app store provider.

Customer rebates

Where the Group has rebate agreements with its customers, the value of customer rebates paid or payable, calculated in accordance with the agreements in place based on the most likely outcome, is deducted from turnover in the year in which the rebate is earned.

Interest income

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue 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.

Non-underlying items

Non-underlying items are those items that are unusual because of their size, nature or incidence. 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.

Leasing

The Group's leases are currently all operating leases (leases in which a significant portion of the risks and rewards of ownership are retained by the lessor). Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease (net of any incentive received from the lessor).

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). GBP is the predominant functional currency of the Group and presentation currency for the consolidated financial information.

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

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- Exchange differences on transactions entered into to hedge certain foreign currency risks (see below under financial instruments/hedge accounting).
- 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 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 is 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.

Notes to the Financial Statements continued

For the year ended 31 August 2019

3 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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
Customer demonstration units	2 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:

Development expenditure	2 to 8 years
Purchased intellectual property	2 years
Licences	2 to 5 years
Software	2 years
Brand	10 years
Product designs	3 years

The underlying business has remained the same with regards to the estimated useful life of the assets. However, the acquired business, ADAM Audio, designs products with a longer saleable life and hence a longer amortisation period of up to 8 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.

Impairment of tangible and intangible assets excluding goodwill

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

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

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

Where an impairment loss subsequently reverses, 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.

Intangible assets sensitivity analysis

For intangible assets other than goodwill, the capitalisation policy has been continued up to and including FY19, although the cost is now estimated in more detail- by person, by project, by month – to give a more accurate analysis of the costs incurred and to support the capitalisation more fully. Focusrite and Novation products typically last for 3-6 years, and therefore an amortisation rate charging R&D costs to the P&L over three years is considered prudent hence management elects not to perform a sensitivity analysis, due to the level of detail reviewed when determining the amounts to be amortised. As a result, the anticipated risk of misstatement arising from estimating the useful life of the assets is minimised, and therefore the effect of not performing a sensitivity analysis considered to be immaterial.

Within ADAM Audio, the estimated useful life of intangible assets has been assessed as follows:

Brand	10 years
Product development	8 years
Product design for products currently in production	3 years

See note 5 for sensitivity analysis on ADAM Audio's intangible assets.

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 either 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. Provision for impairment is made through profit or loss when there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Financial instruments (policy applicable from 1 September 2018)

(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 Group 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 plus, 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 Group 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 Group 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.

Notes to the Financial Statements continued

For the year ended 31 August 2019

3 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Financial instruments (policy applicable from 1 September 2018) continued

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 Group'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 Group are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Group 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 Group; and

(b) where the instrument will or may be settled in the Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Group's own equity instruments or is a derivative that will be settled by the Group's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Group'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. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

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 (including a non-financial item that becomes a firm commitment for which fair value hedge accounting is applied – see below), 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

The Group recognises loss allowances for expected credit losses (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 significant financing component are measured using the general model described above.

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

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

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

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group 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 Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group 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.

Financial instruments (policy applicable prior to 1 September 2018)

(i) Classification of financial instruments issued by the Group

Following the adoption of IAS 32, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the group 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 group; and

(b) where the instrument will or may be settled in the Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Group's own equity instruments or is a derivative that will be settled by the Group's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Group'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.

Notes to the Financial Statements continued

For the year ended 31 August 2019

3 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Financial instruments (policy applicable prior to 1 September 2018) continued

(ii) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

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

(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. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

(iii) Derivative financial instruments and hedging continued

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 asset or non-financial liability, 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.

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 US where the Group has a single distributor: American Music & Sound ('AMS').

The Group's subsidiary, Focusrite Novation Inc ('FNI') 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.

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.

Revenue recognition

There are certain cases where the Group would issue a credit note after the year end in respect of goods sold prior to the year end. One example is a retrospective rebate issued to a reseller if the reseller buys more than a targeted value of stock from the Group. A second example is in respect of a warranty claim made by a consumer for a non-working product.

The Group estimates the post-year-end financial impact of all of these adjustments and ensures that a sufficient credit note reserve exists to be confident that revenue recognised in the reported financial year will not be reversed in the following financial year. As an indication of the range of estimation in this area, the credit note provision at year end is £1,045,000 (2018: £888,000).

Inventory provisions

Estimation is required to determine the level of inventory at the year end that may become obsolete due to changes in consumer habits or technology, and therefore the level of provision against it. The Group has an inventory provisioning policy that reflects the fact that there are strong physical controls carried out by the independent service provider which manages the Group's inventory resulting in low inventory loss or damage. The provision is based upon the ageing of stock, together with allowances for slow-moving, excess, or obsolete items. The provision at the year end was £770,297 (2018: £670,000), and the amount written off to the income statement in the year was £100,000 (2018: £99,000). There are a number of estimates made in arriving at the stock provision. There are no individual estimates that are sufficiently sensitive to require disclosure.

Capitalisation and recoverability of internally-generated intangible asset

Management considered both the capitalisation and the recoverability of its internally-generated intangible asset for development costs which is included in the balance sheet at 31 August 2019 at £9,214,000 (2018: £4,641,000). The amount capitalised in the year was £3,822,000 (2018: £2,995,000) and amounts recognised on acquisition totalled £2,985,000. 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. 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.

In 2018, management had also reconsidered the dates for the commencement of amortisation for individual development projects rather than applying a more generic estimate. As a result, the accumulated amortisation was recalculated, resulting in a reduction of the accumulated amortisation. The adjustment was shown in FY18 as a non-underlying item.

A sensitivity analysis on the estimated useful lives of the intangible assets has been performed and summarised in table in note 5.

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.

5 ACQUISITION OF A SUBSIDIARY

On 16 July 2019, the Group acquired 100% of the shares and voting interests in Pro Audio Beteiligungs GmbH, which comprises ADAM Audio GmbH and its overseas subsidiaries ('ADAM Audio') for a total consideration of £15,265,000, of which £14,996,000 was satisfied in cash and £269,000 is accrued as deferred consideration. The deferred consideration is in relation to potential legal fees as a result of the acquisition, which if not incurred will be paid over to the seller. Based on the amount of the consideration, management has considered the discounting effect not to be material.

ADAM Audio designs and markets high specification studio monitors and speakers for use in professional recording studios. It also offers monitors tailored for amateur and intermediate level music professionals as well as loudspeakers and headphones.

The acquisition extends the Group's product offering to incorporate a comprehensive range of monitors well-aligned to its existing customer base, reflecting a strong fit with the previously communicated strategic aims to grow the core customer base, expand into new markets and increase lifetime value for customers.

For the six week period between the acquisition and 31 August 2019, ADAM Audio contributed revenue of £1,750,000 and a segment profit of £159,000 to the Group's results. If the acquisition had occurred on 1 September 2018, management estimates that ADAM Audio's revenue would have been £12,359,000 and loss for the year would have been £484,000. 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 2018.

Notes to the Financial Statements continued

For the year ended 31 August 2019

5 ACQUISITION OF A SUBSIDIARY CONTINUED

Acquisition-related costs

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

Identifiable assets acquired and liabilities assumed

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

Recognised values on acquisition	Note	£'000
Brand	19	7,500
Products designs	20	1,500
Product developments		2,985
Other intangible assets	19	11,985
Property, plant and equipment	20	261
Cash		674
Inventories		3,094
Trade and other receivables		677
Deferred tax	24	(3,463)
Trade and other payables		(2,188)
Bank overdraft		(627)
Net identifiable assets and liabilities at fair value		10,413
Goodwill recognised on acquisition		4,852
Consideration paid and accrued		15,265

Measurement of fair values

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

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

The trade receivables amounts included within 'trade and other receivables' comprise gross contractual amounts due of £706,000, of which £157,000 was expected to be uncollectable at the date of acquisition.

Fair values measured on a provisional basis

If new information is obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition 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 ADAM Audio workforce;
- worldwide reputation based on product design and technological innovation;
- alignment to the Group's existing customer base; and
- strong strategic fit to grow the core customer base, 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 product 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 £7,500,000, Product development at £2,543,000 and Product design at £1,500,000.

	Brand			Product development			Product design		
	9 years £'000	10 years £'000	11 years £'000	7 years £'000	8 years £'000	9 years £'000	2 years £'000	3 years £'000	4 years £'000
Annual amortisation	833	750	682	363	318	283	750	500	375
Impact on Profit	(83)	–	68	(45)	–	35	(250)	–	125

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

6 REVENUE

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

	Year ended 31 August 2019				Year ended 31 August 2018			
	EMEA £'000	North America £'000	Rest of World £'000	Total £'000	EMEA £'000	North America £'000	Rest of World £'000	Total £'000
Focusrite	22,059	26,366	9,219	57,644	17,687	22,402	7,342	47,431
Focusrite Pro	1,316	2,537	851	4,704	1,528	2,538	696	4,762
Focusrite combined	23,375	28,903	10,070	62,348	19,215	24,940	8,038	52,193
Novation	7,096	6,684	3,939	17,719	7,629	7,780	4,657	20,066
ADAM Audio	714	758	278	1,750	–	–	–	–
Distribution	2,848	–	–	2,848	2,862	–	–	2,862
Total	34,033	36,345	14,287	84,665	29,706	32,720	12,695	75,121

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

Segment revenues and results

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

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. 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 Focusrite and its US subsidiary, net of inter-company commission income. Also included within central administration costs is the charge relating to the share option scheme (note 30) of £348,000 for the year ended 31 August 2019 (2018: £216,000).

Notes to the Financial Statements continued

For the year ended 31 August 2019

7 BUSINESS SEGMENTS CONTINUED

	Year ended 31 August	
	2019 £'000	2018 £'000
Revenue from external customers		
Focusrite	57,644	47,431
Focusrite Pro	4,704	4,762
Novation	17,719	20,066
ADAM Audio	1,750	–
Distribution	2,848	2,862
Total	84,665	75,121
Segment profit		
Focusrite	28,785	22,245
Focusrite Pro	2,908	2,862
Novation	8,680	10,063
ADAM Audio	159	–
Distribution	807	795
	41,339	35,965
Central distribution costs and administrative expenses	(27,790)	(24,352)
Non-underlying items	(737)	329
Operating profit	12,812	11,942
Finance income	246	4
Finance costs	(45)	(274)
Profit before tax	13,013	11,672
Tax	(1,349)	(1,199)
Profit after tax	11,664	10,473

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

	2019 £'000	2018 £'000
Non-current assets		
North America	124	81
Europe, Middle East and Africa	24,900	6,705
Rest of the World	681	528
Total non-current assets	25,705	7,314

Information about major customers

Included in revenues shown for 2019 is £33.4 million (2018: £31.2 million) attributed to the Group's largest customer, which is located in the USA. Amounts owed at the year end were £8.5 million (2018: £6.3 million).

8 PROFIT FOR THE YEAR

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

		Year ended 31 August	
	Note	2019 £'000	2018 £'000
Net foreign exchange (gains)/losses	10, 11	(103)	234
Research and development costs (excluding costs capitalised)		1,939	1,524
Depreciation and impairment of property, plant and equipment	20	714	740
Profit on disposal of property, plant and equipment		3	(14)
Amortisation of intangibles	19	2,936	2,804
Operating lease rental expense	25	466	384
Cost of inventories recognised as an expense		41,805	39,093
Staff costs (excluding share-based payments)	12	10,339	8,969
Movement in expected credit loss	23	(40)	29
Share-based payments charged to profit and loss	30	348	216

9 AUDITOR'S REMUNERATION

	Year ended 31 August	
	2019 £'000	2018 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	25	20
Fees payable to the Company's auditor and its associates for other services	–	–
Audit of the accounts of subsidiaries pursuant to legislation	142	57
Total audit service	167	77
Audit-related assurance services	16	9
Tax compliance services	–	–
Other assurance services	–	1
	183	87

10 FINANCE INCOME

	Year ended 31 August	
	2019 £'000	2018 £'000
Bank deposit interest	143	4
Exchange gain	103	–
	246	4

11 FINANCE COSTS

	Year ended 31 August	
	2019 £'000	2018 £'000
Bank charges	45	40
Exchange losses	–	234
	45	274

Other financial expenses include bank charges arising on transactions executed and completed in the corresponding period.

Notes to the Financial Statements continued

For the year ended 31 August 2019

12 STAFF COSTS

	Year ended 31 August	
	2019 £'000	2018 £'000
Wages and salaries	11,577	10,155
Social security costs	1,045	917
Other pension costs	577	411
Share-based payments	348	216
	13,547	11,699
Less amounts capitalised within development costs	(2,860)	(2,514)
	10,687	9,185

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

	2019 Number	2018 Number
Research and development	108	76
Sales and marketing	73	62
Operations	80	46
Administration and central	23	25
	284	209

13 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 these financial statements (page 53), and in note 3 of the Company financial statements (page 102).

14 NON-UNDERLYING ITEMS

During the year ended 31 August 2019 the Group incurred acquisition-related costs totalling £737,000 in respect of the acquisition of Pro Audio Beteiligungs GmbH and its subsidiary. These non-recurring costs have been shown as a non-underlying item in the Income Statement. During the year ended 31 August 2018, the Directors considered the date from which amortisation of development costs should start and decided that it was more appropriate that the amortisation start date be assessed for each product developed rather than applying a single, albeit more prudent, rule for all. As a result, there was an adjustment to the Income Statement to reduce the amortisation charged to date by £329,000 and in 2018 this was shown as a non-underlying item in the Income Statement as it was a change in estimate.

15 TAX

	Year ended 31 August	
	2019 £'000	2018 £'000
Corporation tax charges:		
Over provision in prior year	(127)	(160)
Current year	1,242	1,315
	1,115	1,155
Deferred taxation		
Current year	234	44
	1,349	1,199

Corporation tax is calculated at 19% (2018: 19%) of the estimated taxable profit for the year. Taxation for the US and Germany subsidiaries are calculated at the rates prevailing in the respective jurisdiction.

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

	Year ended 31 August	
	2019 £'000	**2018 £'000**
Current taxation		
Profit before tax on continuing operations	13,013	11,672
Tax at the UK corporation tax rate of 19% (2018: 19%)	2,472	2,218
Effects of:		
Expenses not deductible for tax purposes	133	48
R&D tax credit	(1,093)	(872)
Prior period adjustment – current tax	(127)	(160)
Effect of change in standard rate of deferred tax	–	14
Overseas tax	(36)	(49)
Tax charge for period	1,349	1,199

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:

	2019 £'000	**2018 £'000**
Share-based payment deferred tax deduction in excess of remuneration expense	(238)	95
Share-based payment current tax deduction in excess of remuneration expense	310	698
	72	793

A reduction in the UK corporation tax rate 19% to 18% (effective from 1 April 2020) was substantively enacted on 25 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly. The deferred tax asset at 31 August 2019 has been calculated based on these rates.

16 DIVIDENDS

The following equity dividends have been declared:

	Year to 31 August	
	2019	**2018**
Dividend per qualifying ordinary share	3.8p	3.3p

During the year, the Company paid an interim dividend in respect of the year ended 31 August 2019 of 1.2 pence per share.

On 19 November 2019, the Directors recommended a final dividend of 2.6 pence per share (2018: 2.3 pence per share), making a total of 3.8 pence per share for the year (2018: 3.3 pence per share).

Notes to the Financial Statements continued

For the year ended 31 August 2019

17 EARNINGS PER SHARE ('EPS')

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

	Year ended 31 August	
	2019 £'000	2018 £'000
Earnings		
Earnings for the purposes of basic and diluted EPS, being net profit for the period	11,664	10,473
Non-underlying items	737	(329)
Tax on non-underlying items	–	63
Total underlying profit for adjusted EPS calculation	12,401	10,207

	Year ended 31 August	
	2019 Number '000	2018 Number '000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic EPS calculation	57,221	56,825
Effect of dilutive potential ordinary shares:		
EMI Scheme and unapproved share option plan	824	1,151
Weighted average number of ordinary shares for the purposes of diluted EPS calculation	58,045	57,976

	Pence	Pence
EPS		
Basic EPS	20.40	18.40
Diluted EPS	20.10	18.10
Adjusted basic EPS	21.70	18.00
Adjusted diluted EPS	21.40	17.60

At 31 August 2019, the total number of ordinary shares issued and fully paid was 58,111,639. This included 782,652 (2018: 1,159,021) shares held by the EBT to satisfy options vesting in future years. The operation of this EBT is funded by the Group so the EBT is required to be consolidated, with the result that the weighted average number of ordinary shares for the purpose of the basic EPS calculation is the net of the weighted average number of shares in issue (58,111,639) less the weighted average number of shares held by the EBT (890,733). 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.

18 GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE

	ADAM Audio £'000	Novation Digital Music Systems Ltd £'000	Total £'000
Cost			
At 1 September 2017	–	419	419
At 31 August 2018	–	419	419
Additional goodwill recognised on business combinations	4,852	–	4,852
At 31 August 2019	4,852	419	5,271

No impairment losses have been required on goodwill amounts recognised in the Group to date.

	ADAM Audio £'000	Novation Digital Music Systems Ltd £'000	Total £'000
Carrying amount			
At 1 September 2017	–	419	419
At 31 August 2018	–	419	419
Additional goodwill recognised on business combinations	4,852	–	4,852
At 31 August 2019	4,852	419	5,271

In note 19 – Other Intangible Assets, there are £1,294,000 of development costs which have not started amortisation. These are projects in development and are considered to be intangible assets with indefinite useful life.

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

	Goodwill £'000	Intangible assets with indefinite useful life £'000
CGUs		
Focusrite	–	35
Focusrite Pro	–	151
Novation	419	1,108
ADAM Audio	4,852	–
Total	**5,271**	**1,294**

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 has 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, and a pre-tax discount rate of 13.1%. Management believes that any reasonably possible change in the key assumptions on which these CGUs' recoverable amounts are based would not cause carrying amount to exceed their respective recoverable amounts. Also, there is noted as being sufficient headroom for all CGU's.

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 pre-tax discount rate of 16.8%. Cash flows beyond that three-year period have been extrapolated using a steady 3% growth rate. 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.

Notes to the Financial Statements continued

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19 OTHER INTANGIBLE ASSETS

	Intellectual property £'000	Development costs £'000	Product development in progress £'000	Licences £'000	Trademark £'000	Computer software £'000	Product designs £'000	Brands £'000	Total £'000
Cost									
At 1 September 2017	205	14,544	797	87	127	423	–	–	16,183
Additions – products previously under development	290	509	(509)	2	159	434	–	–	885
Additions – products developed during the year	–	1,573	–	–	–	–	–	–	1,573
Additions – from development in progress	–	–	1,422	–	–	–	–	–	1,422
Disposals	–	–	–	–	–	–	–	–	–
At 31 August 2018	495	16,626	1,710	89	286	857	–	–	20,063
Additions – products previously under development	91	1,303	(1,303)	14	136	151	–	–	392
Additions – products developed during the year	–	2,934	–	–	–	–	–	–	2,934
Additions – from development in progress	–	–	887	–	–	–	–	–	887
Additions through business combination	–	2,985	–	–	–	–	1,500	7,500	11,985
Disposals	(50)	(2,495)	–	–	–	–	–	–	(2,545)
At 31 August 2019	536	21,353	1,294	103	422	1,008	1,500	7,500	33,716
Amortisation									
At 1 September 2017	144	11,270	–	82	14	129	–	–	11,639
Charge for the year	64	2,425	–	6	100	209	–	–	2,804
Eliminated on disposal	–	–	–	–	–	–	–	–	–
At 31 August 2018	208	13,695	–	88	114	338	–	–	14,443
Charge for the year	145	2,233	–	7	155	238	63	95	2,936
Eliminated on disposal	–	(2,495)	–	–	–	–	–	–	(2,495)
At 31 August 2019	353	13,433	–	95	269	576	63	95	14,884
Carrying amount									
At 31 August 2019	183	7,920	1,294	8	153	432	1,437	7,405	18,832
At 31 August 2018	287	2,931	1,710	1	172	519	–	–	5,620
At 31 August 2017	61	3,274	797	5	113	294	–	–	4,544

20 PROPERTY, PLANT AND EQUIPMENT

	Plant, tooling equipment and machinery £'000	Fixtures, fittings and leasehold improvements £'000	Computer equipment £'000	Customer demonstration units £'000	Total £'000
Cost					
At 1 September 2017	2,583	963	556	185	4,287
Additions	308	109	229	5	651
Disposals	(14)	(47)	(51)	(36)	(148)
At 31 August 2018	2,877	1,025	734	154	4,790
Additions	538	58	209	3	808
Additions through business combination	261	–	–	–	261
Disposals	(1,405)	(28)	(2)	–	(1,435)
At 31 August 2019	2,271	1,055	941	157	4,424
Accumulated depreciation and impairment					
At 1 September 2017	1,893	578	374	73	2,918
Charge for the year	398	89	175	78	740
Eliminated on disposals	(14)	(47)	(51)	(31)	(143)
At 31 August 2018	2,277	620	498	120	3,515
Charge for the year	381	101	197	35	714
Eliminated on disposals	(1,405)	–	(2)	–	(1,407)
At 31 August 2019	1,253	721	693	155	2,822
Carrying amount					
At 31 August 2019	1,018	334	248	2	1,602
At 31 August 2018	600	405	236	34	1,275
At 31 August 2017	690	385	182	112	1,369

Notes to the Financial Statements continued

For the year ended 31 August 2019

21 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	2019 %	2018 %
Focusrite Audio Engineering Limited ('FAEL')	England and Wales	Windsor House, Turnpike Road, High Wycombe, Bucks, HP12 3FX	Manufacture and distribution	Ordinary	100	100
Focusrite Novation Inc.[1]	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
Pro Audio Beteiligungs GmbH	Germany	Grünstraße 13 79232 Hugstetten Germany	Holding company	Ordinary	100	–
ADAM Audio GmbH[2]	Germany	Rudower Chaussee 50 12489 Berlin, Germany	Manufacture and distribution	Ordinary	100	–
ADAM Audio USA, Inc[3]	USA	514 E Iris Drive, Nashville, TN, 37204	Marketing services and distribution	Ordinary	100	–
Dongguan ADAM Audio Business Service Co., Ltd[3]	China	Room 505, Building 1 (-3H Maker Center), No.552, Tangxia Avenue North, Tangxia Town, Dongguan, Guangdong	Operational services	Ordinary	100	–

1 Owned indirectly through FAEL.

2 Owned indirectly through Pro Audio Beteiligungs GmbH.

3 Owned indirectly through ADAM Audio GmbH.

22 INVENTORIES

	2019 £'000	2018 £'000
Raw materials	362	314
Finished goods	14,820	11,077
	15,182	11,391

Increase in inventories in current year mostly relates to the acquisition of ADAM Audio, which resulted in acquired stock of £3,094,000 at acquisition date and £3,123,000 as at year end.

The stock value includes a provision of £650k (2018: £670k). Of this provision, £nil was reversed and £nil was utilised during the year.

Stock charged to cost of sales during the year were £41,811,000 (2018: £39,145,000).

No inventories have been pledged as security against borrowings (2018: £nil). Stock days recorded against cost of goods sold amounted to 133 days in 2019 (2018: 106 days). The write-down of inventories to net realisable value amounted to £100k (2018: £99k). The reversal of write-downs amounted to £nil (2018: £nil). The write-down and reversal are included in cost of sales.

23 TRADE AND OTHER RECEIVABLES

	2019 £'000	2018 £'000
Amount receivable for the sale of goods	13,771	10,607
Expected credit loss	(9)	(49)
	13,762	10,558
Other debtors	3,613	1,225
Prepayments	813	1,527
	18,188	13,310

Trade receivables

Trade receivables disclosed above are classified as loans and receivables and are measured at amortised cost.

Increase in the current year compared to prior relates to timing differences on the payment of the balance from the major distributor. In addition, in the last quarter of the year, a new product, Launchpad, was released and resulted in an increase of £2,191,000 in the year's sales.

The average credit period offered on sales of goods during 2019 was 45 days (2018: 41 days). The days sales outstanding ('DSO') at 31 August 2019 was 57 days (2018: 51 days).

The Group has not charged interest for late payment of invoices in 2018 or 2019 but in certain cases the Group has withheld some of that customer's discount from the consumer 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.

Before accepting any significant new customer, the Group uses a variety of credit scoring systems to assess the potential customer's credit quality and to define credit limits for each customer. Limits and scoring attributed to customers are reviewed regularly. A single major distributor accounted for 59% of the total balance of trade receivables net of allowances for doubtful debts on 31 August 2019 (2018: 59%) 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

	2019 £'000	2018 £'000
Not overdue	12,169	10,062
Overdue between 0–30 days	1,123	264
Overdue between 31–60 days	435	196
Overdue between 61–90 days	35	25
Overdue more than 90 days	–	11
	13,762	10,558

Movement in the expected credit loss

	2019 £'000	2018 £'000
Balance at the beginning of the period	49	20
Movement in expected loss recognised	(40)	29
Assumed as part of business combination	0	–
Movement in business combination expected loss	–	–
Balance at the end of the period	9	49

Notes to the Financial Statements continued

For the year ended 31 August 2019

23 TRADE AND OTHER RECEIVABLES CONTINUED

In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the relevant year end. Aside from the major customer mentioned above, the concentration of credit risk is limited due to the customer base being large and diverse in terms of industry sector. The Group maintains credit insurance to protect the debts of the major customers, including amounts in relation to its largest customer mentioned above. In addition, the Group maintains a close operational relationship with the key management of its largest customer, so as to monitor any changes in the level of credit risk associated with that business.

Ageing of impaired trade receivables

	2019 £'000	2018 £'000
Overdue up to 30 days	–	–
Overdue between 31–60 days	–	–
Overdue between 61–90 days	–	–
Overdue between 91–120 days	–	–
Overdue more than 120 days	9	49
	9	49

Trade receivables net of allowance for doubtful debts

	2019 £'000	2018 £'000
Gross value of not impaired receivables	13,762	10,558
Gross value of impaired receivables	9	49
Expected credit loss	(9)	(49)
	13,762	10,558

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

24 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	Hedging instrument £'000	Total £'000
Cost					
At 1 September 2017	–	856	(516)	(95)	245
Debit to profit or loss	–	32	12	–	44
Debit to other comprehensive income	–	–	–	106	106
Credit to equity	–	–	(95)	–	(95)
At 31 August 2018	–	888	(599)	11	300
Debit/(credit) to profit or loss	(61)	348	(53)	–	234
Debit/(credit) to other comprehensive income	–	–	–	(47)	(47)
Arising on business combinations	3,463	96	–	–	3,559
Credit to equity	–	–	(238)	–	238
At 31 August 2019	3,402	1,332	(414)	(36)	4,284

The Deferred tax liability arising on the business combination relates to temporary differences arising as a result of the fair valuation of the Intangible assets at date of acquisition (see note 5 and note 19).

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:

	2019 £'000	2018 £'000
Deferred tax liabilities	4,734	899
Deferred tax assets	(450)	(599)
	4,284	300

25 OPERATING LEASE ARRANGEMENTS

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

	Minimum lease payments	
	2019 £'000	2018 £'000
Within one year	824	382
In the second to fifth years inclusive	1,976	1,084
After five years	–	–
	2,800	1,466

Operating lease payments typically represent rentals payable by the Group for its office properties and office equipment. Rent reviews and break clauses apply to leased property agreements.

26 TRADE AND OTHER PAYABLES

	2019 £'000	2018 £'000
Trade payables	8,953	6,441
Accrued expenses	6,151	3,994
Other taxation and social security payable	560	274
	15,664	10,709

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases was 48 days (2018: 47 days). 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.

The Directors consider that the carrying amount of trade payables approximates their fair value.

27 SHARE CAPITAL

	2019 Number	2018 Number
Issued and fully paid		
Ordinary shares of £0.001 each	58,111,639	58,111,639

	2019 £	2018 £
Issued and fully paid		
Ordinary shares of £0.001 each	58,112	58,112
	58,112	58,112

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28 OTHER RESERVES

Share premium reserve

	2019 £'000	2018 £'000
Balance at 1 September	115	–
Issue of new shares	–	115
Balance at 31 August	115	115

Merger reserve

	2019 £'000	2018 £'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, 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

	2019 £'000	2018 £'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.

Treasury reserve

	2019 £'000	2018 £'000
Balance at 1 September	(1)	(3)
Shares exercised from EBT	–	2
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.

Translation reserve

	2019 £'000	2018 £'000
Balance at 1 September	50	31
Exchange differences on translating the net assets of foreign operations	42	19
Balance at 31 August	92	50

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

Hedging reserve

	2019 £'000	2018 £'000
Balance at 1 September	46	(389)
Loss on forward foreign exchange contracts designated and effective as a hedging instrument	(245)	541
Tax on hedging instrument	47	(106)
Balance at 31 August	(152)	46

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.

29 CASH AND CASH EQUIVALENTS

	2019 £'000	2018 £'000
Cash and bank balances per the balance sheet	15,505	22,811
Bank overdraft	(627)	–
Net cash per the cash flow statement	14,878	22,811

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value.

Notes to the Financial Statements continued

For the year ended 31 August 2019

30 SHARE-BASED PAYMENTS

Equity-settled share option schemes

392,935 options over Focusrite plc's shares were exercised during the year ended 31 August 2019 (2018: 1,387,824). As at 31 August 2019, the total number of ordinary shares under option in Focusrite plc was 1,713,198 (2018: 1,969,114) of which 782,652 (2018: 1,159,021) 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 930,546 (2018: 810,093) 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 2019 was £4.42 (2018: £2.87). For the share options outstanding at the year end, the weighted average remaining contractual life was 7.6 years (2018: 4.8 years).

	2019		2018	
	Number of options	Weighted average exercise price £	Number of options	Weighted average exercise price £
Outstanding at start of period	1,969,114	1.62	2,812,684	0.38
Granted during the period:				
2018 PSP: senior employees exc. Executive Directors	58,746	0.00	29,305	0.00
2018 PSP: Executive Directors	93,040	0.00	126,240	0.00
2018 LTIP	13,993	3.73	634,330	3.94
2019 LTIP	216,203	5.10	–	–
Exercised during the year:				
2014 EMI Scheme: other employees	(237,357)	0.15	(1,210,638)	0.15
2014 EMI Scheme: J Wilson	(80,345)	0.15	(91,295)	0.15
2015 PSP: senior employees exc. Executive Directors	(75,233)	0.00	(85,891)	0.00
Cancelled during the period:				
2014 EMI Scheme: other employees	(31,606)	0.15	(38,240)	0.15
2014 EMI Scheme: J Wilson	(52,988)	0.15	(42,038)	0.15
2015 EMI Scheme: other employees	(13,958)	1.71	(59,112)	1.71
2015 PSP: senior employees exc. Executive Directors	(11,827)	0.00	(13,191)	0.00
2016 PSP: senior employees exc. Executive Directors	–	0.00	(47,726)	0.00
2017 PSP: senior employees exc. Executive Directors	–	0.00	(21,076)	0.00
2018 PSP: senior employees exc. Executive Directors	–	0.00	(6,111)	0.00
2018 LTIP	(117,386)	3.94	(18,127)	3.94
2019 LTIP	(17,198)	5.10	–	–
Outstanding at end of year	1,713,198	2.15	1,969,114	1.62
Exercisable at end of year	9,378	0.15	30,567	0.06

	2019 £'000	2018 £'000
Expense arising from share-based payment transactions	348	216

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%
24 November 2016	£1.80	£0.001	n/a	1.45%	10 years	n/a
22 November 2017	£3.18	£0.001	n/a	1.00%	10 years	n/a
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%

31 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 £577,000 for the year ended 31 August 2019 (2018: £411,000). Contributions totalling £214,431 (2018: £35,549) were payable to the fund at the balance sheet date and are included in trade and other payables.

32 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 27 to 28.

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

	2019 £'000	2018 £'000
Financial assets		
Amortised cost		
Cash and cash equivalents	15,505	22,811
Trade and other receivables	16,181	11,542
Designated cash flow hedge relationships		
Derivative financial assets designated and effective as cash flow hedging instruments	–	57
	31,686	34,410
Financial liabilities		
Designated cash flow hedge relationships		
Derivative financial liabilities designated and effective as cash flow hedging instruments	188	–
Amortised cost		
Trade and other payables	8,953	6,441
Bank overdraft	627	–
	9,768	6,441

Financial assets and liabilities are measured at amortised costs which is a reasonable approximation of fair value.

Notes to the Financial Statements continued

For the year ended 31 August 2019

32 FINANCIAL INSTRUMENTS CONTINUED

Financial risk management objectives

The Group's finance function is responsible for all aspects of corporate treasury. It coordinates access to financial markets, monitors and manages the financial risks relating to the operations of the Group through internal reports which analyse exposures by degree and magnitude. The risks reviewed include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group seeks to minimise the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide guidance to the finance function in addressing all risks, including foreign exchange risk, credit risk and the appropriate use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Group's bankers are party to a debenture which provides for security over the whole of the Company's assets and undertakings. This debenture is in place to support the revolving credit facility, provision of forward contracts and a duty deferment facility.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Group enters into a variety of 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 foreign currency denominated monetary assets and monetary liabilities at the relevant period end dates are as follows:

	Liabilities		Assets	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
USD	3,667	6,240	12,677	11,182
Euros	187	6	3,656	6,170
HKD	51	–	119	–
GBP	5,863	195	15,234	17,058
	9,768	6,441	31,686	34,410

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]		US Dollar impact[2]	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Profit or loss	347	616	901	494

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.

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:

	2019				
	Carrying amount £'000	Expected cash flow £'000	Within 1 year £'000	Between 1 and 5 years £'000	Over 5 years £'000
Forward exchange contracts					
Liabilities	(188)	(188)	(188)	–	–
Total	(188)	(188)	(188)	–	–

	2018				
	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	57	57	100	(43)	–
Total	57	57	100	(43)	–

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, typically covering around 90% 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 no bank debt. 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.

	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
2019						
Non-interest-bearing	15,505	–	–	–	–	15,505
	15,505	–	–	–	–	15,505
2018						
Non-interest-bearing	22,811	–	–	–	–	22,811
	22,811	–	–	–	–	22,811

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.

Notes to the Financial Statements continued

For the year ended 31 August 2019

32 FINANCIAL INSTRUMENTS CONTINUED

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.

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.

33 CONTINGENT LIABILITIES

In the opinion of the Directors, the Company and its subsidiaries are not involved currently in any legal proceedings which, at 31 August 2019 and for the period up to the date of approval of these financial statements, have had a significant effect on the financial position or profitability of the Company and its subsidiaries.

34 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.

	2019 £'000	2018 £'000
Short-term employee benefits	2,808	2,326
Share-based payments	214	106
Pension contributions	73	62
Termination benefits	–	64
	3,095	2,558
Aggregate emoluments of the highest paid Director	479	503

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 £19,750 (2018: £19,750) and is considered to be at arm's length.

Company Balance Sheet

As at 31 August 2019

	Note	2019 £'000	2018 £'000
Assets			
Non-current assets			
Investment in subsidiaries	6	29,912	14,647
Total fixed assets		29,912	14,647
Current assets			
Trade and other receivables	7	4,090	2,424
Corporate tax recoverable		–	–
Cash at bank and in hand		2,126	13,810
Total current assets		6,216	16,234
Creditors: amounts falling due within one year			
Creditors	8	(1,149)	(704)
Net current assets		5,067	15,530
Total assets less current liabilities		34,979	30,177
Net assets		34,979	30,177
Capital and reserves			
Share capital	9	58	58
Share premium		115	115
Merger reserve	10	14,595	14,595
EBT reserve	11	(1)	(1)
Retained earnings	12	20,212	15,410
Total equity and shareholders' funds		34,979	30,177

The financial statements were approved by the Board of Directors and authorised for issue on 19 November 2019. They were signed on its behalf by:

Jeremy Wilson

Chief Financial Officer

The accompanying notes on pages 101 to 105 form part of these financial statements.

Reg number 9312676

Company Statement of Changes in Equity

For the year ended 31 August 2019

	Share capital £'000	Share premium £'000	Merger reserve £'000	EBT reserve £'000	Retained earnings £'000	Total £'000
Balance at 31 August 2017	58	–	14,595	(3)	8,721	23,371
Profit for the period	–	–	–	–	7,963	7,963
Dividends	–	–	–	–	(1,679)	(1,679)
Share-based payment charge	–	–	–	–	216	216
Shares from EBT exercised	–	–	–	2	189	191
New shares issued	–	115	–	–	–	115
Balance at 31 August 2018	58	115	14,595	(1)	15,410	30,177
Profit for the period	–	–	–	–	6,238	6,238
Dividends	–	–	–	–	(2,005)	(2,005)
Premium on shares issued in lieu of bonuses	–	–	–	–	175	175
Share-based payment charge	–	–	–	–	348	348
Shares from EBT exercised	–	–	–	–	46	46
Balance at 31 August 2019	58	115	14,595	(1)	20,212	34,979

The accompanying notes on pages 101 to 105 form part of these financial statements.

Notes to the Company Accounts

For the year ended 31 August 2019

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 2019 were authorised for issue by the Board of Directors on 19 November 2019 and the balance sheet was signed on the Board's behalf by Tim Carroll and Jeremy Wilson.

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 2019.

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 of International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs') but makes amendments where necessary in order to comply with 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 IFRSs; 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 2019.

Going concern

The Company's business activities and position in the market are described in the Strategic Report. 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. As a consequence of these factors and having reviewed the forecasts for the coming year, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. 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 2 to 33.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less any provision for impairment.

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.

Notes to the Company Accounts continued

For the year ended 31 August 2019

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Income taxes continued

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

	2019 £'000	2018 £'000
Salaries, bonuses and other employee benefits	1,122	1,138
Social security costs	160	142
Pension costs	52	47
	1,334	1,327

During the year retirement benefits were accruing to two Directors (2018: three) in respect of defined contribution pension schemes. The highest paid Director received remuneration (excluding the value of vested share options) of £479,000 (2018: £503,000).

The value of the Company's contributions paid to a defined contribution pension scheme in respect of the highest paid Director amounted to £nil (2018: £nil). During the year, 80,345 share options were exercised by Directors (2018: 91,295), resulting in a gain of £349,000 (2018: £277,000).

The Directors' remuneration for the year:

		Salary/fees £'000	Other taxable benefits £'000	Annual bonus £'000	Pension contribution £'000	Total £'000
Executive Directors						
Tim Carroll[1]	FY18	219	8	252	24	503
	FY19	224	8	209	24	465
Jeremy Wilson[2]	FY18	175	2	219	23	419
	FY19	179	2	185	23	389
Phil Dudderidge	FY18	174	4	–	–	178
	FY19	178	5	–	–	183
Non-executive Directors						
David Bezem[3]	FY18	38	–	–	–	38
	FY19	40	–	–	–	40
Paul Dean[3]	FY18	38	–	–	–	38
	FY19	40	–	–	–	40
Naomi Climer[4]	FY18	9	–	–	–	9
(appointed 25 May 2018)	FY19	35	–	–	–	35

1 The bonus for Tim Carroll comprises £142,036 paid in cash (FY18: £186,405), £33,555 taken as shares (FY18: £32,895) and £33,555 in the form of matching shares (FY18: £32,895).
The pension contribution was taken as additional taxed income net of the appropriate percentage of employer's national insurance which would not otherwise have fallen due, and Tim Carroll elected to use £4,858 (FY18: £4,858) of this in respect of the costs of leasing a car.

2 The bonus for Jeremy Wilson comprises £95,594 paid in cash (FY18: £131,400), £44,675 taken as shares (FY18: £43,800) and £44,675 in the form of matching shares (FY18: £43,800).
The pension contribution was taken as additional taxed income net of the appropriate percentage of employer's national insurance which would not otherwise have fallen due.

3 The remuneration for David Bezem and Paul Dean each comprises a basic fee of £35,000 (£32,100 until 25 May 2018) per annum for their roles as Non-executive Directors of the Group and an additional £5,000 per annum for their roles as Chairmen of Board Committees.

4 Naomi Climer's basic fee for her role as Non-executive Director of the Group was £35,000. In FY18 she was employed for three months of the financial year.

4 STAFF COSTS

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

	2019 £'000	2018 £'000
Wages and salaries	1,259	1,181
Social security costs	166	147
Other pension costs	55	48
	1,480	1,376

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

	2019 Number	2018 Number
Management and administration	7	7

5 DIVIDENDS

The following equity dividends have been declared:

	2019	2018
Dividend per qualifying ordinary share	3.8p	3.3p

Notes to the Company Accounts continued

For the year ended 31 August 2019

6 INVESTMENTS IN SUBSIDIARIES

	2019 £'000	2018 £'000
At 1 September	14,647	14,647
Acquired as business combination (ADAM Audio)	15,265	–
At 31 August	29,912	14,647

The investments in subsidiaries comprise:

Name	Country of registration or incorporation	Principal activity	Class of shares	2019 %	2018 %
Focusrite Audio Engineering Limited	England and Wales	Manufacture and distribution	Ordinary	100	100
Focusrite Novation Inc.[1]	USA	Marketing services	Ordinary	100	100
Focusrite Novation Asia Limited[1]	Hong Kong	Marketing services	Ordinary	100	100
Pro Audio Beteiligungs GmbH	Germany	Holding company	Ordinary	100	–
ADAM Audio GmbH[2]	Germany	Manufacture and distribution	Ordinary	100	–
ADAM Audio USA, Inc[3]	USA	Marketing services and distribution	Ordinary	100	–
Dongguan ADAM Audio Business Service Co., Ltd[3]	China	Operational services	Ordinary	100	–

1 Owned indirectly through FAEL.

2 Owned indirectly through Pro Audio GmbH.

3 Owned indirectly through ADAM Audio GmbH.

7 TRADE AND OTHER RECEIVABLES

	2019 £'000	2018 £'000
Other debtors	198	121
Prepayments	39	–
Amounts owed by Group undertakings	3,853	2,303
	4,090	2,424

The amounts owed by Group undertakings are interest free and repayable on demand.

8 CREDITORS

	2019 £'000	2018 £'000
Other creditors	1,149	704

9 SHARE CAPITAL

	2019 Number	2018 Number
Issued and fully paid:		
Ordinary shares of £0.01 each	58,111,639	58,111,639

	2019 £	2018 £
Issued and fully paid:		
Ordinary shares of £0.01 each	58,112	58,112
	58,112	58,112

The Company has one class of ordinary shares which carries no right to fixed income.

10 MERGER RESERVE

	2019 £'000	2018 £'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.

11 EBT RESERVE

	2019 £'000	2018 £'000
At 1 September	(1)	(3)
Shares exercised from EBT	–	2
At 31 August	(1)	(1)

12 RETAINED EARNINGS

	2019 £'000	2018 £'000
At 1 September	15,410	8,721
Net profit for the period	6,238	7,963
Dividend	(2,005)	(1,679)
Premium on shares issued in lieu of bonuses	175	–
Share-based payment charge	348	216
Shares from EBT exercised	46	189
At 31 August	20,212	15,410

The Company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The Parent Company's profit for the year was £6,238,000 (2018: £7,963,000).

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