

Focusrite Plc

Results for the year ending
31 August 2017

November 2017



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Markets

Financial Review

Strategy Evolution

Final Comment



Tim Carroll
Chief Executive
Officer



Jeremy Wilson
Chief Financial
Officer



Introduction

Focusrite plc is a global music and audio products group that develops and markets proprietary hardware and software products. Our portfolio is used by both audio professionals and amateurs alike in order to enhance the creative process and realise the highest quality production of recorded and live sound.

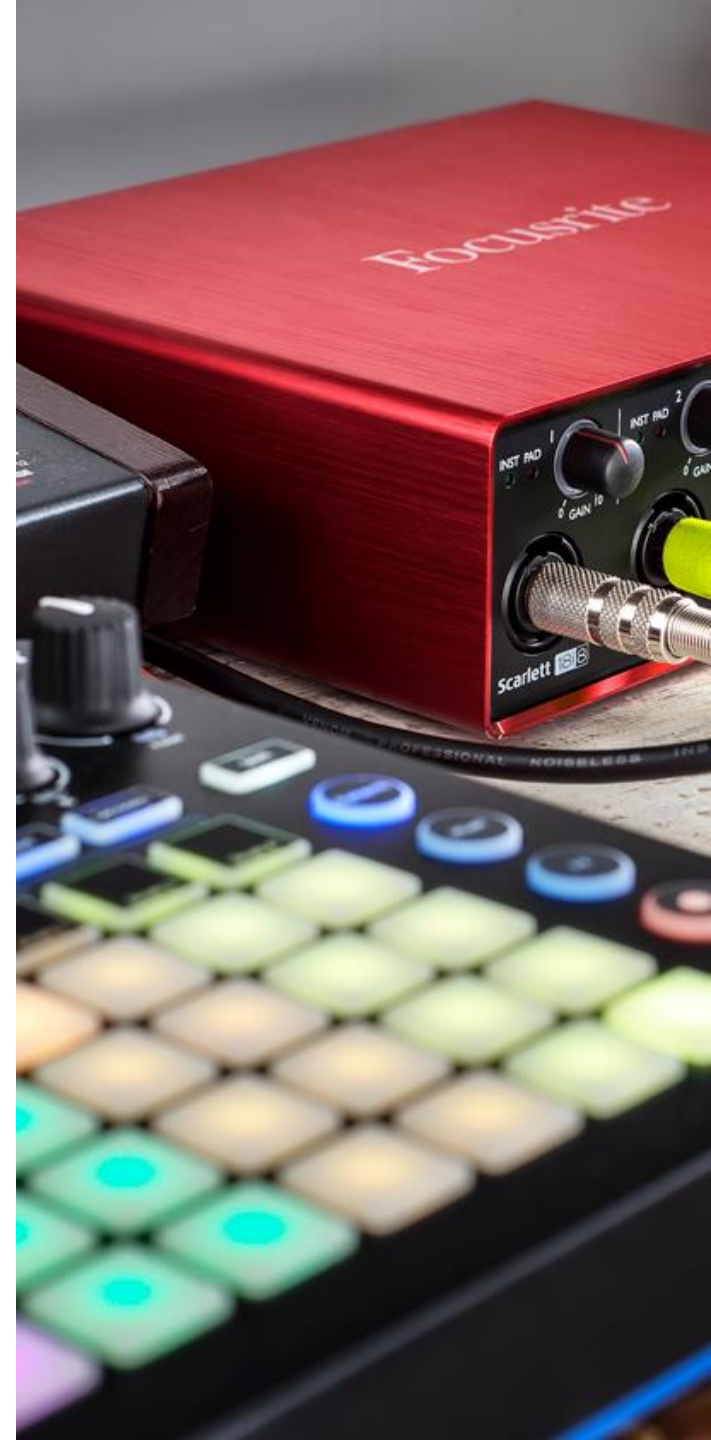
Founded in 1989

Two established brands:

- **Focusrite:** audio recording equipment
- **Novation:** hardware and software for creating and playing electronic music

Global customer base: 160 territories

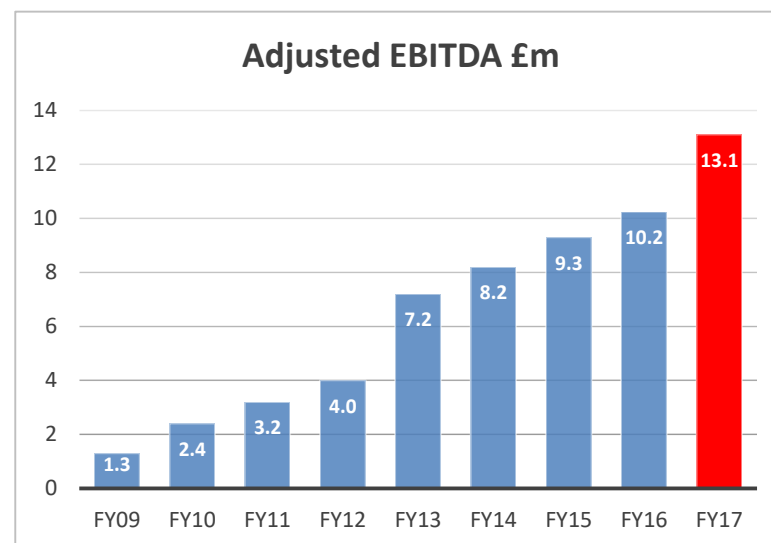
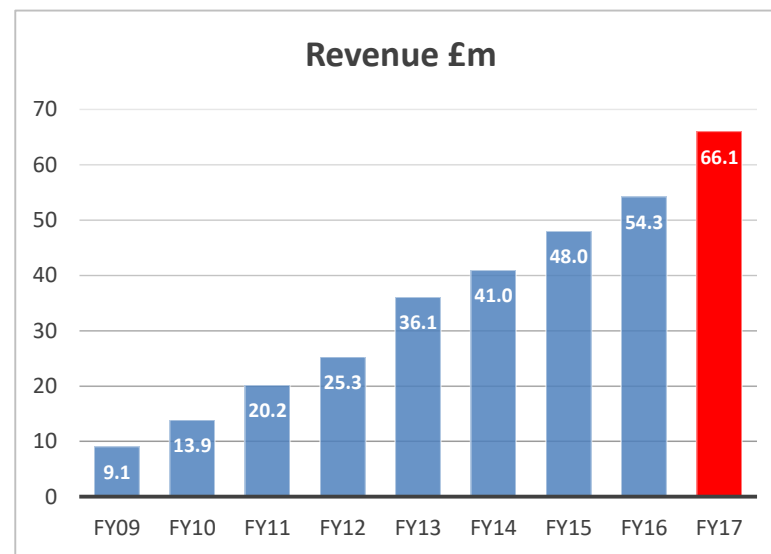
Approximately 190 employees





Financial highlights for the year ended 31 Aug 2017

- Revenue up 21.6% (13% at constant exchange rates)
- Growth across both major segments and in all regions.
- 10 new products this year.
- Significant strengthening of Launchpad demand leading to Novation growing by 37.8%
- Downloads of Apps now exceeding 7.5 million.
- Adjusted EBITDA¹ up 27.9%
- Cash up from £5.6 million to £14.2 million
- Full year dividend up 38% to 2.7p



¹ Comprising of earnings adjusted for interest, taxation, depreciation, amortisation and non-underlying items comprising nil in FY17 and £0.5m legal costs in FY16.



Sectors: Focusrite



RedNet: Enterprise, Live, Broadcast, Education. Networked Audio over IP
\$3,000 upwards
2-3% market share



Red: Creative Professional, Music, Post
\$2,500 to \$3,500
c.3% market share



Clarett: Intermediate / Professional user
\$500 to \$1,300
Now c.17% market share



Scarlett: Mass market interface. Home user
\$100 to \$500
c.50% market share



iTrack: Mobile recording
\$50 to \$250
New market



Sectors: Focusrite

Focusrite	FY17	FY16	Growth
	£m	£m	%
Revenue	44.6	37.6	18.6%

- Scarlett, Clarett and Rednet all grew in absolute and market share terms
- Scarlett 2nd Generation particularly strong and market share now c50%. Number one audio interface in the world.
- Focusrite Pro launched to support our growing Rednet and Red business.
 - Our Audio Over IP solutions are well poised to become industry standards in post production, broadcast, installed and live sound.
- Launched 5 new Focusrite branded products.





Sectors: Novation

Portfolio designed for creation of Electronic Music

Controllers: Physical interfaces to control music creation software

Standalone: Function on their own as sound generating devices

Software: iOS apps that allow creation of music on iPhones/iPads



CONTROLLERS

Grid controllers: **Launchpad** - \$100 to \$300

Keyboard controllers: **Launchkey** - \$80 to \$400



STANDALONE

Grid: **Circuit** - \$330

Keyboard: **Bass Station II** - \$400



SOFTWARE

Freemium iOS apps and add-on packs starting from \$2



Sectors: Novation

Novation	FY17	FY16	Growth
	£m	£m	%
Revenue	18.9	13.7	37.8%

- Launchpad, Launchkey and Synthesisers all grew strongly leading to business segment growth of 37.8%.
- Also larger penetration from on-line distribution channels such as Amazon helped Launchpad volumes to grow 39%.
- 3 new products including new flagship synthesiser (Peak): widespread adoption amongst professional musicians.
- Ampify. New name for software division.
 - Groovebox launched
 - Combined downloads now 7.5 million.
 - 550,000 active users.
 - Consistently in top 10 music creation tools on Apple's app store.





Sectors: UK Distribution

Distribution	FY17	FY16	Growth
	£m	£m	%
Revenue	2.6	3.1	-13.6%

- Add-on products within music-making industry but UK only and small overall.
- Mostly KRK monitors. Falling due to ageing range.
- Also some revenue from sE microphones: Range of studio quality microphones suited for vocal and instrument recording
- Important insight into the wider needs of our end-customers.





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Financial highlights for the year ended 31 August 2017

- All major financial measures growing.
- Group revenue up by 21.6% to £66.1 million (FY16: £54.3 million)
- Adjusted EBITDA¹ up by 27.9% to £13.1 million (FY16: £10.2 million)
- Operating profit up by 32.6% to £9.5 million (FY16: £7.1 million)
 - HY16 had £0.5 million non-underlying cost
- Profit before tax up by 33.5% to £9.5 million (FY16: £7.1 million)
- Basic earnings per share 15.4p, up by 30.5% (FY16: 11.8p)
- Adjusted² diluted earnings per share 14.8p, up by 29.8% (FY16: 11.4p)
- Net cash of £14.2 million (FY16: £5.6 million)
- Final dividend of 1.95p recommended, leading to 2.7p for the year, up from a total dividend of 1.95p in FY16.
 - Dividend cover 5.5x.
 - First step towards ongoing target dividend cover of 4-5x.

¹ Comprising earnings adjusted for interest, taxation, depreciation, amortisation and non-underlying items.

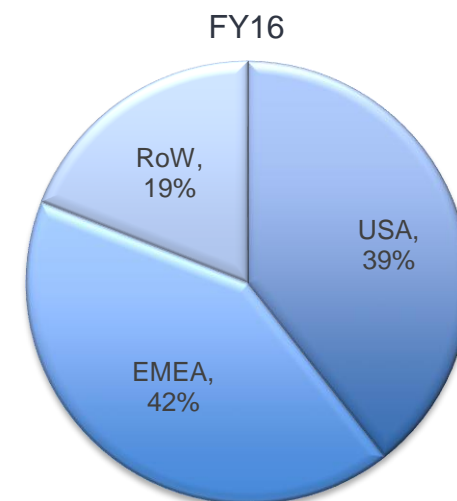
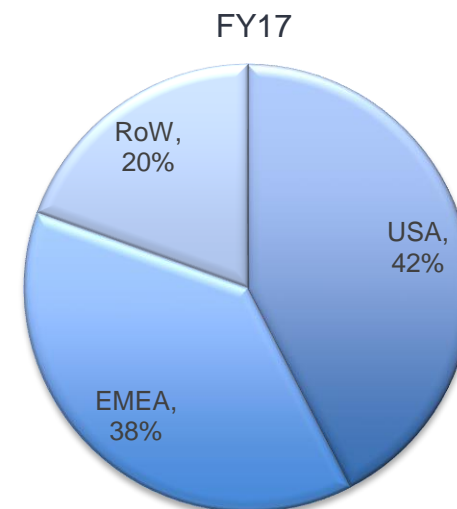
² Adjusted for non-underlying items which were £nil in FY17 and £0.5 million legal costs in FY16.



2017: Markets

Segmental Revenue	FY17	FY16	Growth
	£m	£m	%
USA	28.0	21.4	30.9%
Europe, Middle East and Africa	25.2	22.6	11.4%
Rest of World	12.9	10.3	24.9%
Consolidated revenue	66.1	54.3	21.6%

- **USA: up 30.9% to £28.0m**
 - Constant FX growth 18%.
 - Expansion of Los Angeles team to further drive consumer demand.
- **EMEA: up 11.4% to £25.2m**
 - Constant FX growth 7%
 - Increased competition between major continental resellers.
 - Brexit creating some market and operational uncertainty.
- **Rest of World (mainly Asia): up 24.9% to £12.9m**
 - Constant FX growth 13%
 - Hong Kong office now fully functional and integrated with company systems.
 - Recruitment of more sales talent.
- **eCommerce site over 1% of revenue and growing.**





Income Statement

£ million	FY17	FY16	Growth
Revenue	66.1	54.3	21.6%
Cost of sales	-39.7	-33.4	
Gross profit	26.4	20.9	26.3%
Operating expenses before non-underlying items	-16.9	-13.3	28.0%
Operating profit before non-underlying items	9.5	7.6	23.4%
Non-underlying items	0.0	-0.5	
Operating profit	9.5	7.1	32.6%
Net financing charges	0.0	0.0	
Profit before tax	9.5	7.1	33.5%
Tax	-0.9	-0.8	
Profit after tax	8.6	6.3	36.7%
Adjusted operating profit before non-underlying items	9.5	7.6	23.4%
Add back depreciation and amortisation	3.6	2.6	
Adjusted EBITDA	13.1	10.2	27.9%

- Revenue up 21.6%.
 - Constant FX growth 13%.
 - All major territories increasing.
- Gross margin 39.9% (FY16, 38.4%).
 - FX and discount management.
- Adjusted EBITDA up 27.9% to £13.1m (FY16, £10.2m).
- No non-underlying costs
 - FY16 related to legal cases now settled.
- Net financing charges zero
- Tax 10.1% of profit before tax.
 - Tax benefits on R&D and lower headline tax rate.



Balance Sheet

£ million	FY17	FY16
Intangible assets	5.0	4.8
Tangible assets	1.3	1.6
Total non current assets	6.3	6.4
Inventories	8.3	11.4
Debtors and other investments	13.0	11.2
Cash	14.2	5.6
Total current assets	35.5	28.2
Total assets	41.8	34.6
Capital and reserves		
Share capital and other reserves	1.6	1.0
P+L account	31.3	22.9
Total Equity	32.9	23.9
Current liabilities	8.7	10.4
Deferred tax	0.2	0.3
Total liabilities	8.9	10.7
Total equity and liabilities	41.8	34.6

- Intangible fixed assets include £4.1m of capitalised R&D and £0.9m of goodwill & other intangibles
 - Capitalise c70% and write off over 3 years.
 - R&D expenditure c6% of revenue
- Stock turn of 4.8 times in FY17 (FY16, 2.9 times).
 - Concerted focus to manage better.
 - Helped by growing demand.
- Debtor days 60 days, down from 63 days at FY16.
 - Customers buying 2nd gen Scarlett at end of FY16 paying in September and October.
- Current liabilities down to £8.7m.
 - Lower purchases of stock.
- Deferred tax due largely to the capitalised R&D.



Cash flow

£ million	FY17	FY16
Adjusted EBITDA	13.1	10.2
Movement in wc (ex non-underlying items)	0.7	-6.2
Operating cash flow (ex non-underlying items)	13.8	4.0
Interest (paid)	0.0	-0.1
Tax (paid)	-0.6	-0.2
Foreign exchange movement	0.0	0.4
Net cash from operating activities (ex non-underlying items)	13.2	4.1
Investing	-3.7	-3.7
Underlying free cash flow	9.5	0.4
Proceeds from share issue	0.3	0.2
Dividends	-1.1	-1.0
Non-underlying items	-0.1	-0.2
Net inc/dec in cash	8.6	-0.6
Opening cash	5.6	6.2
Closing cash	14.2	5.6

- Working capital reduction.
 - Lower stock and continued careful management of debtors.
- Investing £3.7m, (FY16, £3.7m)
 - Capitalised R&D £2.7m (FY16, £2.7m).
 - Other capital expenditure (mainly tooling) £1.0m (FY16, £1.0m).
- Non-underlying items:
 - Largely payment of legal costs.
- Closing cash £14.2m, up from £5.6m in Aug '16
 - Also HSBC revolving credit facility of £10m.



Summary and current trading

- Revenue up 21.6% with growth in both brands and all major territories.
- R&D remains important: 10 further new products launched.
- Significant increase in demand for Novation products, especially Launchpad where volumes up 39%.
- Adjusted EBITDA up by 27.9% to £13.1 million (FY16: £10.2 million).
- Cash up from £5.6 million to £14.2 million. Management focus on stock.
- Final dividend of 1.95p leading to a total of 2.7p, up 38.4% (FY16: 1.95p) recommended.
- Since the year end, revenue and cash have both grown further.



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Focusrite Growth Strategy



Grow core customer base

**Increase lifetime value
of customers**

**Expand into new and high
potential markets**





Grow our customer base

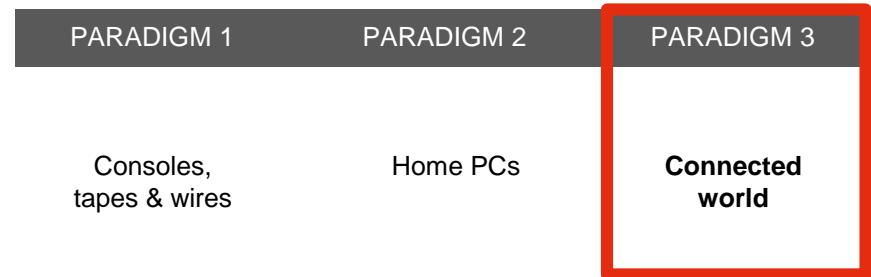


New product offerings as well as next generation versions and enhancements to current portfolio

- Customer relevant hardware & software to enable the creative process



New, disruptive solutions that increase our addressable market

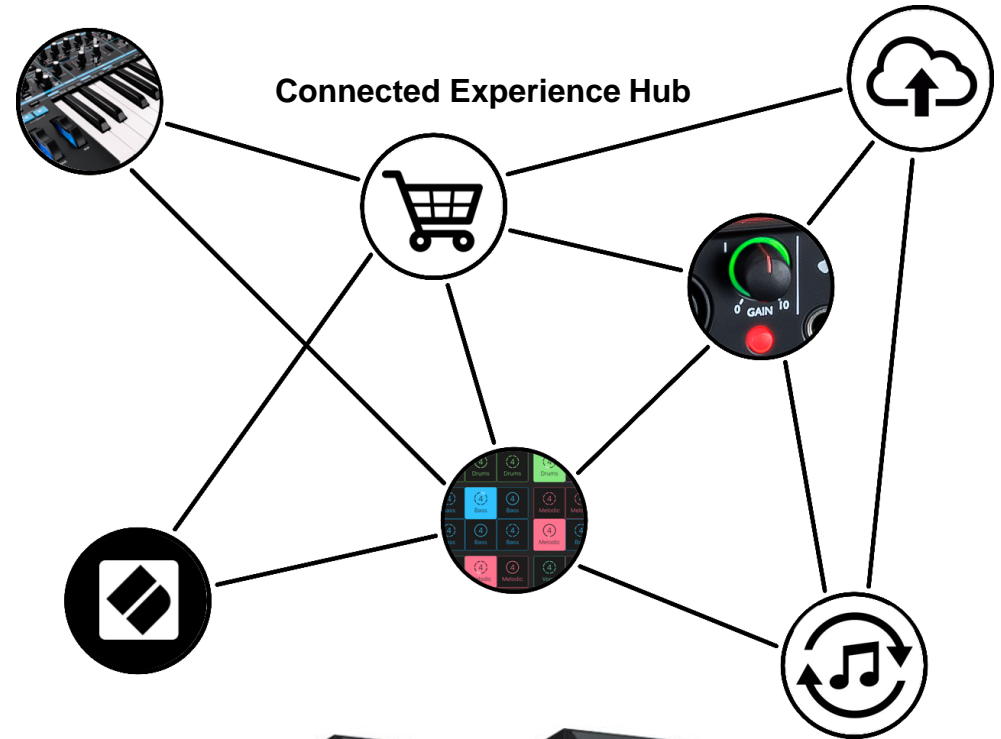




Lifetime value of our Customers

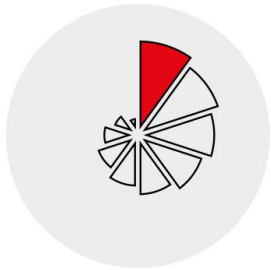


- Building a connected experience to tie our solutions together
- Add-on software tools and content
- Participation in more of the traditional value chain





Expand into new markets



- Leverage current portfolio and IP to enter new markets
- Expand efforts in geographies with large potential
- Careful consideration of acquisitions





Final words

- **Three core goals**
 - Growing our customer base
 - Increasing the lifetime value of our customers
 - Expanding into new market segments in both price and product.

- **Continue to see strong market acceptance across our portfolio**

- **New product introduction pipeline continues to grow.**

- **Since year end revenue and cash have both grown further.**

- **Look forward with confidence to the first half of FY18 and beyond.**

Making Music Easy to Make