

Focusrite Plc

Results for the year ending
31 August 2018

November 2018

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Agenda

Introduction and Highlights

Brand Alignment

Product Sectors

Markets

Financial Review

Growth Strategy

Conclusions



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. Used by audio professionals and amateur musicians alike, its solutions facilitate the high-quality production of recorded and live sound.

Founded in 1989

Four brands:

- **Focusrite:** audio recording equipment
- **Focusrite Pro:** audio recording and broadcasting equipment for commercial operations
- **Novation:** hardware and software for creating and playing electronic music
- **Ampify:** music-making apps

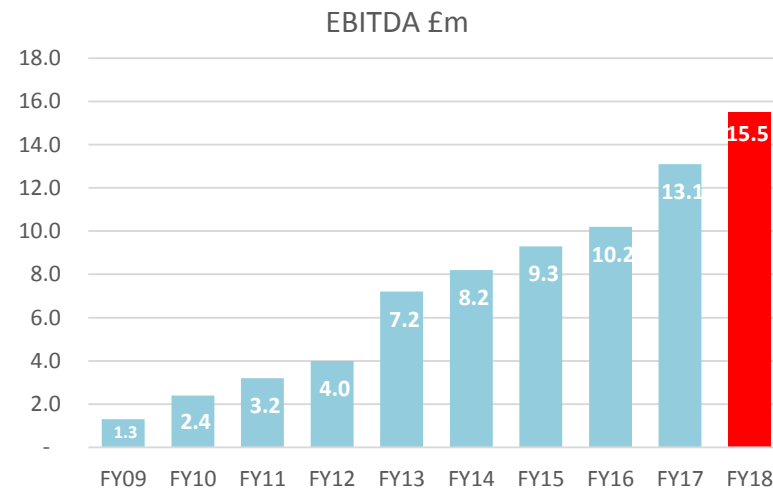
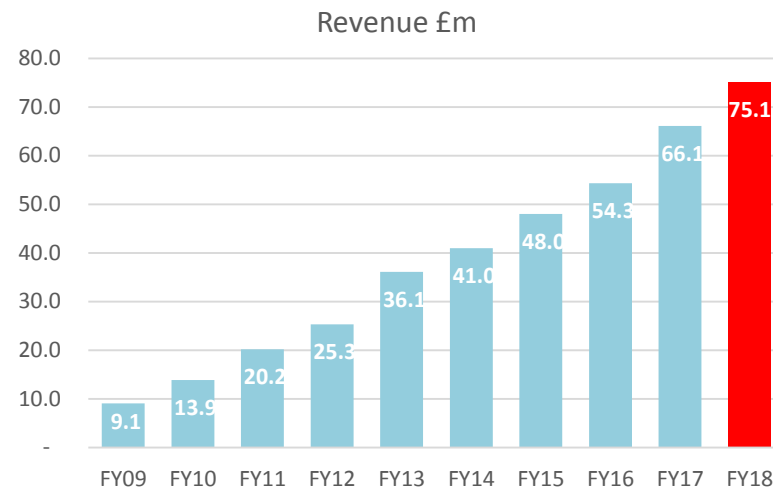
Global customer base: 160 territories

Approximately 210 employees



Highlights for the year ended 31 August 2018

- Revenue up 13.7% (15% at constant exchange rates)
- EBITDA¹ up 18.1% to £15.5 million
- Cash up from £14.2m at FY17 to £22.8 million at FY18
- Final dividend of 2.3 pence resulting in 3.3 pence for the year, an increase of 22.2%
- Growth across all brands and regions.
- Five new products and several software upgrades this period
- Downloads of apps now over 9.5 million
- Queen's Award for Innovation April 2018



¹ Comprising earnings adjusted for interest, taxation, depreciation and amortisation

Brand alignment

New Creator

Market size: \$200m-300m

- Very likely to have little or no previous musical knowledge
- Demands an immediate, joyful experience
- Demands ease, accessibility, and convenience
- Wants a user interface (UI) / app that speaks his or her language
- Wants to get better

Aligned brands: Ampify

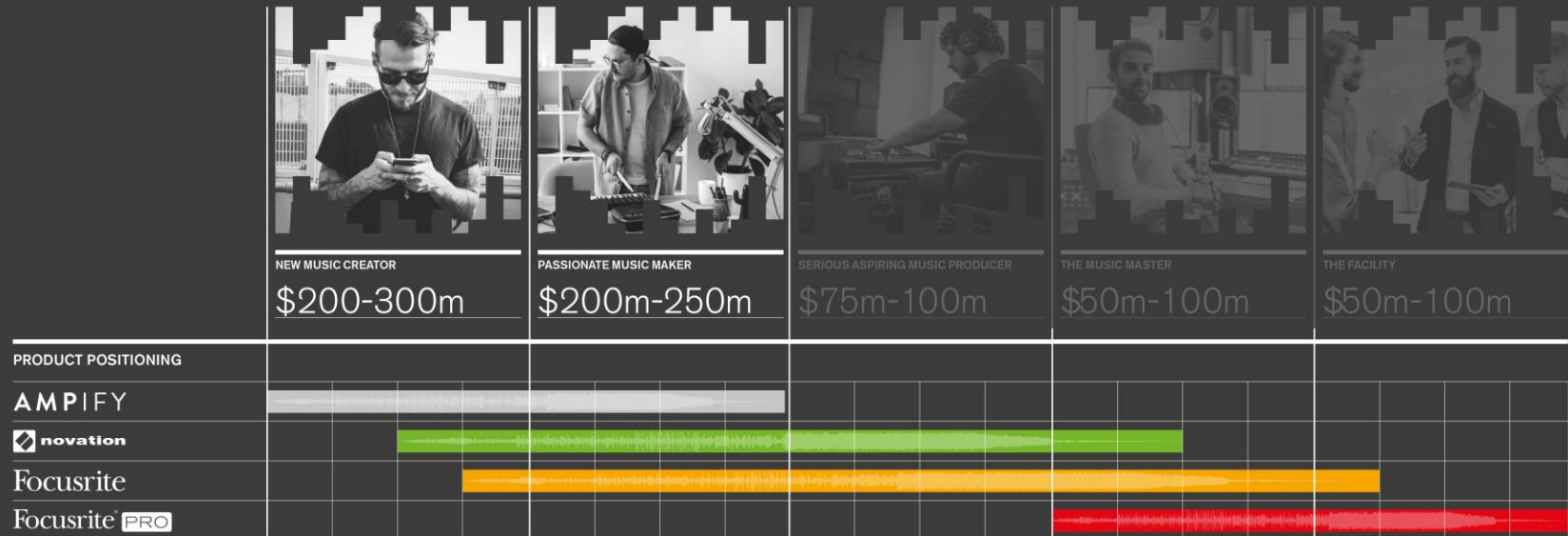
Gateway brands: Novation, Focusrite

Passionate Maker

Market size: \$200m-250m

- May or may not play traditional instruments
- Little or no songwriting experience
- Wants to make “good” music and get better at the craft
- Expectation that new gear will yield quick/positive results

Aligned brands: Novation, Focusrite, Ampify



Brand alignment

Serious Aspiring Producer

Market size: \$75m-100m

- More than just a hobby
- Strong demands on gear/technology to achieve professional-level results
- Deeply into technical data/features
- Willing to pay for solutions that can achieve results

Aligned brands: Novation, Focusrite

The Master/Facility

Market size: \$100m-200m

- Highly skilled musician or audio engineer
- Depends on technology to do the job and make a living
- Adopts/refines workflows to optimize efficiency
- Money generally not an issue if the product meets requirements

Aligned brands: Focusrite, Focusrite Pro

Gateway brands: Novation



Product sectors: Focusrite



RedNet: Enterprise, Live, Broadcast, Education. Networked Audio over IP
\$3,000 upwards



Red: Creative Professional, Music, Post
\$2,000 to \$3,500



Clarett: Intermediate / Professional user
\$400 to \$1,200



Scarlett: Mass market interface. Home user
\$100 to \$500

Product sectors: Focusrite

Focusrite	FY18	FY17	Growth
	£m	£m	%
Revenue	52.2	44.6	17.2

- Scarlett, Clarett and RedNet all grew in absolute terms.
- Scarlett continues to sell strongly (sales up 15%) and remains the number one audio interface in the world.
- Clarett sales up driven by launch of our USB range this year.
- Newly formed Focusrite Pro team getting strategic sales wins with major broadcasters such as NBC and Hollywood post-production facilities such as Formosa Group.
- Launched 5 new Focusrite branded products.



Product 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** - \$100 to \$250.



STANDALONE

Grid: **Circuit** - \$330.

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



SOFTWARE

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

Product sectors: Novation

Novation	FY18	FY17	Growth
	£m	£m	%
Revenue	20.1	18.9	6.4

- Launchpad and Synthesisers grew, leading to business segment growth of 6.4%.
- Launchpad range up 3%.
 - Wider market acceptance by increasingly mainstream audiences.
 - Christmas holiday strong.
- Synthesisers up 46% due to new flagship, Peak.
- Ampify. London innovation software division.
 - Music creation tools
 - Now over 9.5 million downloads cumulatively
 - Increasing at 150-200k per month
 - Crucial part of business strategy going forward...grow the Company's software capability



Product sectors: Distribution

Distribution	FY18	FY17	Growth
	£m	£m	%
Revenue	2.9	2.6	8.4

- Add-on products within music-making industry but UK only and small overall.
- Mostly KRK monitors. Ageing range.
- Also sE microphones: Range of studio quality microphones suited for vocal and instrument recording.
- Invaluable market feedback, insight and knowledge.



Financial highlights for the year ended 31 August 2018

- Group revenue up by 13.7% to £75.1 million (FY17: £66.1 million)
- EBITDA¹ up by 18.1% to £15.5 million (FY17: £13.1 million)
- Operating profit up by 26.1% to £11.9 million (FY17: £9.5 million)
- Adjusted² operating profit up by 22.6% to £11.6 million (FY17: £9.5 million)
- Diluted earnings per share 18.1p, up by 22.3% (FY17: 14.8p)
- Adjusted² diluted earnings per share 17.6p, up by 18.9% (FY17: 14.8p)
- Net cash of £22.8 million (FY17: £14.2 million)
- Final dividend of 2.3 pence, resulting in 3.3 pence for the year, up 22.2% on prior year

¹ Comprising earnings adjusted for interest, taxation, depreciation and amortisation

² FY18 includes a non-underlying gain of £0.3m representing a correction to the amortisation of capitalised research and development costs. There were no non-underlying items in FY17

FY18: Regional performance

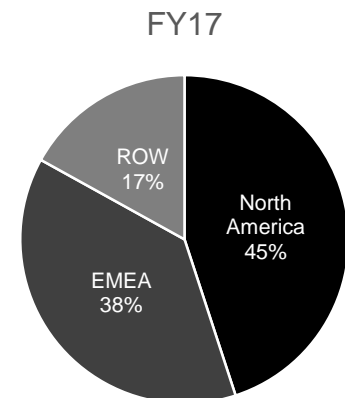
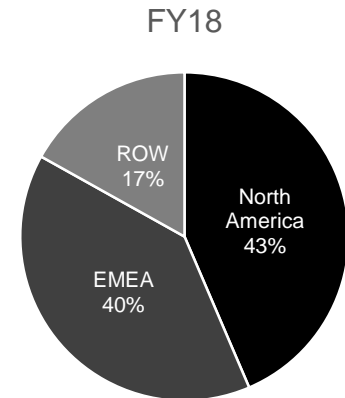
Segmental Revenue	FY18	FY17	Growth
	£m	£m	%
North America	32.7	29.7	10.2
Europe, Middle East and Africa	29.7	25.2	18.1
Rest of World	12.7	11.2	13.3
Consolidated revenue	75.1	66.1	13.7

- North America: up 10.2% to £32.7m
 - Constant FX growth 17%
 - Growth across all brands with Pro strongest

- EMEA: up 18.1% to £29.7m
 - Constant FX growth 11%
 - UK weaker. Germany and mainland Europe stronger.

- Rest of World: up 13.3% to £12.7m
 - Constant FX growth 21%
 - Comprises mainly Asia and South America
 - Key area of investment
 - New regional sales manager in Mexico.

- eCommerce site over 1% of revenue
 - Now includes Spanish, Korean and Japanese languages



Income Statement

	FY18	FY17	Growth
	£ million	£ million	%
Revenue	75.1	66.1	13.7
Cost of sales	-43.4	-39.7	
Gross profit	31.7	26.4	20.2
Operating expenses before non-underlying items	-20.1	-16.9	
Operating profit before non-underlying items	11.6	9.5	22.6
Non-underlying items	0.3	-	
Operating profit	11.9	9.5	26.1
Net financing charges	-0.2	-	
Profit before tax	11.7	9.5	22.7
Tax	-1.2	-0.9	
Profit after tax	10.5	8.6	22.4
Operating profit before non-underlying items	11.6	9.5	22.6
Add back depreciation and amortisation	3.9	3.6	
EBITDA	15.5	13.1	18.1

- Revenue up 13.7%
 - Constant FX growth 15%
 - All major territories increasing
- Gross margin 42.2% (FY17: 39.9%)
 - Stronger Euro
 - Closer management of customers' discounts
- EBITDA up 18.1% to £15.5m (FY17: £13.1m)
- Non-underlying item £0.3m gain (FY17: nil)
 - Amortisation of R&D
- Tax 10.3% of profit before tax
 - R&D benefit still important

Balance Sheet

	FY18	FY17
	£ million	£ million
Intangible assets	6.0	5.0
Tangible assets	1.3	1.3
Total non current assets	7.3	6.3
Inventories	11.4	8.3
Debtors and other investments	13.4	13.0
Cash	22.8	14.2
Total current assets	47.6	35.5
Total assets	54.9	41.8
Capital and reserves		
Share capital and other reserves	1.7	1.2
Retained earnings	41.7	31.7
Total Equity	43.4	32.9
Current liabilities	11.1	8.7
Non current liabilities	0.4	0.2
Total liabilities	11.5	8.9
Total equity and liabilities	54.9	41.8

- Intangible fixed assets include £4.6m of capitalised R&D and £1.4m of goodwill & other intangibles
 - R&D expenditure c6% of revenue
 - Typically capitalise c70% and write off over 3 years
- Inventories up from £8.3m to £11.4m
 - Unusually low stock levels last year
 - Increased demand
- Debtor days 51 days, down from 60 days at FY17
 - Getting customers to pay on time.
 - 95% within terms.
- Current liabilities up by £2.4m to £11.1m (FY17: £8.7m)
 - Greater purchases of stock closer to year end.

Cash flow

	FY18	FY17
	£ million	£ million
EBITDA	15.5	13.1
Movement in working capital	-0.2	0.6
Operating cash flow	15.3	13.7
Interest paid	-0.0	-0.0
Tax paid	-0.5	-0.7
Foreign exchange movement	-0.3	0.1
Net cash from operating activities	14.5	13.1
Investing	-4.5	-3.6
Free cash flow	10.0	9.5
Proceeds from share issue	0.3	0.2
Dividends	-1.7	-1.1
Net change in cash	8.6	8.6
Opening cash	14.2	5.6
Closing cash	22.8	14.2

- Small working capital increase (cash outflow).
 - Working capital 18.2% of revenue (improving from 19.1% last year).
- Investing £4.5m, (FY17: £3.6m)
 - Capitalised R&D £3.0m (FY17: £2.7m)
 - Other capital expenditure £1.5m (FY17, £0.9m)
- Free cash flow 13% of revenue.
 - Long term average c10%.
- Closing cash £22.8m, up from £14.2m at FY17
 - Also HSBC revolving credit facility of £10m

Summary and current trading

- Revenue up 13.7% with growth in all brands and all major territories.
- EBITDA¹ up by 18.1% to £15.5 million (FY17: £13.1 million).
- Strong cash generation: Cash up from £14.2 million at FY17 to £22.8 million.
- Final dividend of 2.3 pence, resulting in 3.3 pence for the year, up 22.2% on prior year.
 - Moving towards an ongoing target dividend cover of 5x
- Current trading broadly similar to record revenue achieved in same period last year.
- Well placed to deliver further growth.

¹ Comprising earnings adjusted for interest, taxation, depreciation and amortisation

Focusrite Growth Strategy



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 that enable success.



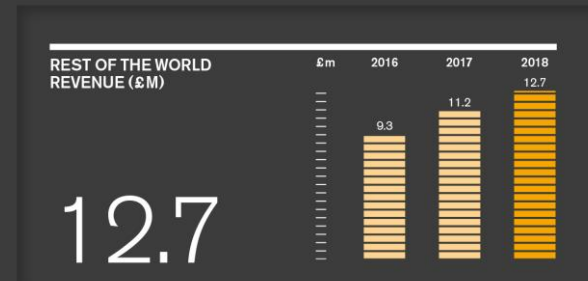
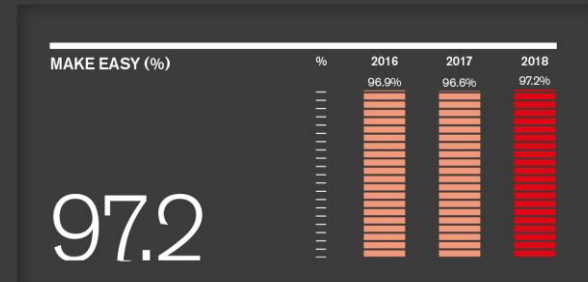
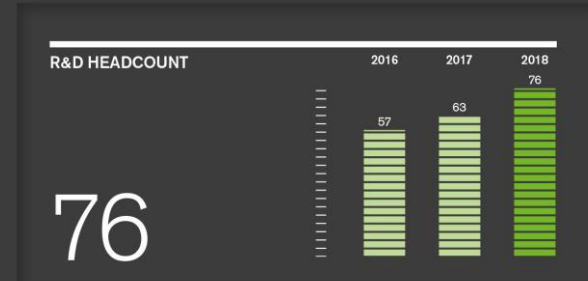
Lifetime value of our customers

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



Expand into new markets

Focusrite plans for and achieves growth through entering new geographical 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.



Grow our customer base

- Continued innovation in our core markets
- Hardware and software solutions focused on removing barriers to creativity and allowing everyone from beginners through professionals to create the best quality audio possible
- Disruptive technologies that make our customers' creative endeavours easier to achieve

“Playing with Peak’s distortion and gain stages is a world of discovery in itself”.

Paul Hartnoll - Orbital



Lifetime value of our Customers

- Add-on software and content
- Focus on a connected experience across our entire portfolio
- Participation in more of the traditional value chain

“The reason behind using RedNet is that it’s simple. It just works every day... There’s such an elegant simplicity to the system. If you’re building a post facility, there doesn’t seem to really be an alternative that makes any sense”.

Bill Johnston

Vice President of Engineering
at The Formosa Group



Expand into new markets

Latin America initiatives

- Hire full-time employees in Mexico and Brazil
- Localise our website, marketing collateral and e-commerce stores; first for Spanish and later for Portuguese
- Partner with a well-known e-commerce entity in Latin America for fulfilment: handling local currency, import duties and preferred payment methods



Conclusions

- **A great year, operationally and financially**
- **Growth in both major segments and all reported regions**
- **Cash up and dividend increased**
- **Strategy clear**
- **Strategy supported by investment, especially in sales, marketing, customer support and software development**

Focusrite Plc

Additional Information

November 2018

Product sectors: Focusrite

5 hardware products launched

- Clarett 2 Pre USB
- Clarett 4 Pre USB
- Clarett 8 Pre USB
- Red 16 Line
- Rednet X2P



Focusrite Plc

**Enriching Lives Through
Music**