

# Focusrite Plc

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Results for the year ending  
**31 August 2019**

**November 2019**

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Focusrite Plc

# Agenda

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Introduction and Highlights

Brand Alignment

Product Sectors

Financial Review

Growth Strategy

Conclusions



**Tim Carroll**

Chief Executive  
Officer



**Jeremy Wilson**

Chief Financial  
Officer

## Introduction

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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.

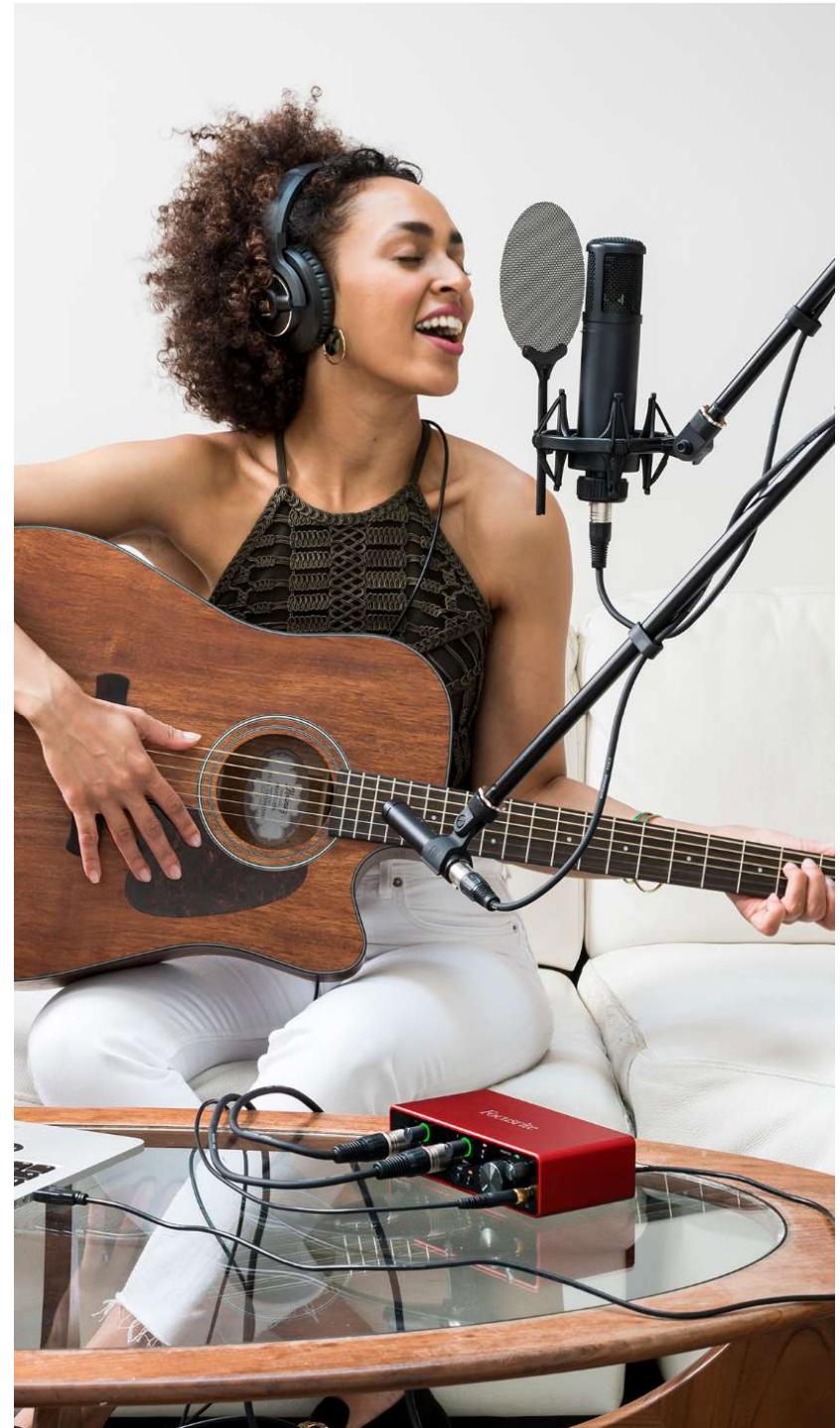
Founded in 1989

Five 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:** Software and content for creating music
- **ADAM Audio:** studio monitors

Global customer base: 160 territories

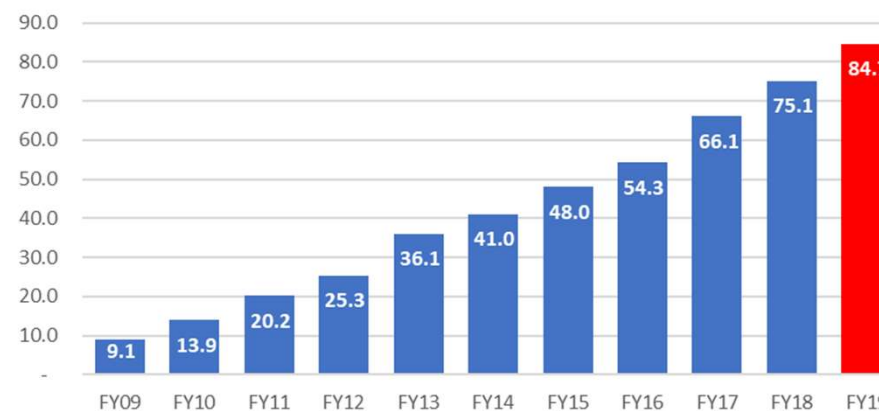
Over 300 employees



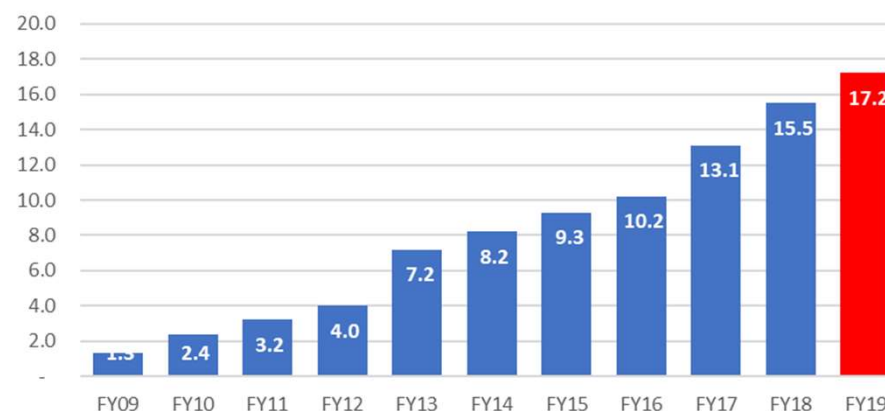
# Highlights for the year ended 31 August 2019

- Revenue up 12.7% (7.8% at constant exchange rates<sup>1</sup>)
- EBITDA<sup>2</sup> up 11.1% to £17.2 million
- Year end net cash balance of £14.9 million after the purchase of ADAM Audio.
- Final dividend of 2.6 pence, resulting in full year dividend of 3.8 pence, an increase of 15.2%
- Ten new products, including the third generation of the Scarlett range, and several software upgrades this year
- Completed the acquisition of ADAM Audio in July 2019 for €18.0 million (£16.2 million)

Revenue £m



EBITDA £m



<sup>1</sup> The constant currency revenue growth rate is calculated by dividing the sum of all transactions in FY19, translated at the average exchange rate for the relevant currency in FY18, by the sum of all transactions in FY18, translated at the same average exchange rate.

<sup>2</sup> Comprising earnings adjusted for interest, taxation, depreciation, amortisation and non-underlying items

# Brand alignment

## New Creator

**Market size: \$225m-325m**

- 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*

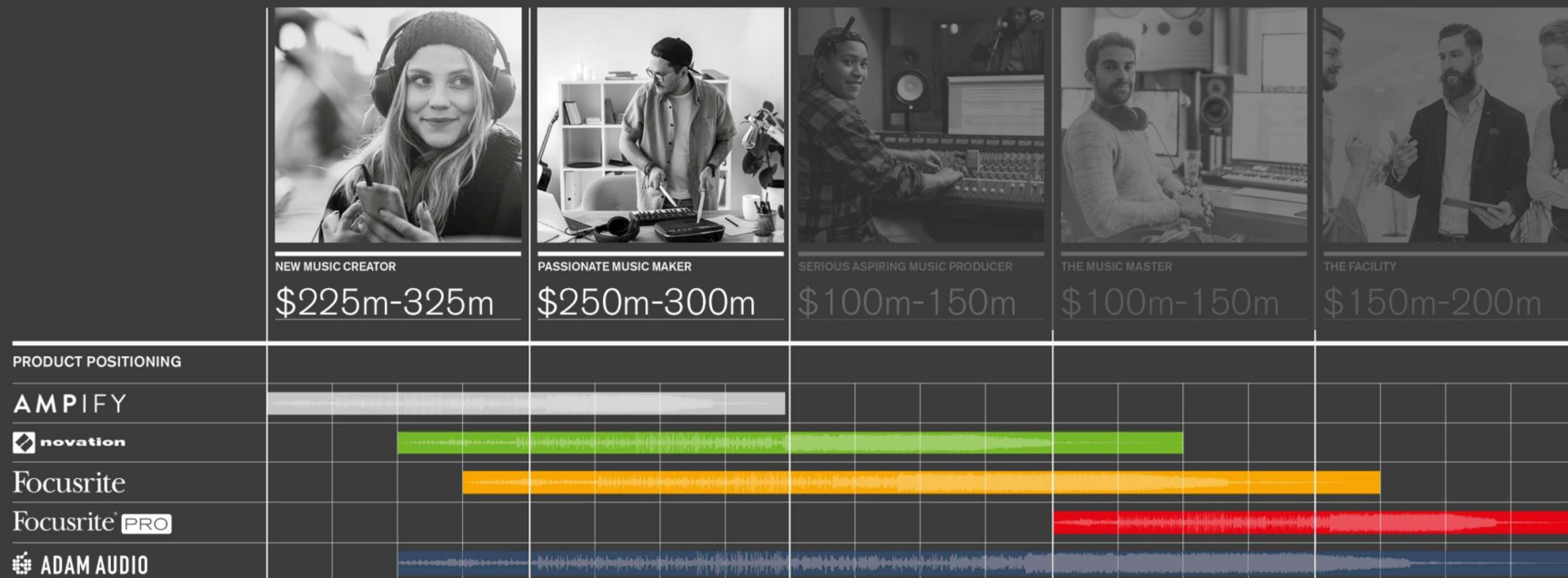
*Gateway brands: Novation, Focusrite, ADAM Audio*

## Passionate Maker

**Market size: \$250m-300m**

- 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, ADAM Audio*





# Brand alignment

## Serious Aspiring Producer

Market size: \$100m-150m

- 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, ADAM Audio

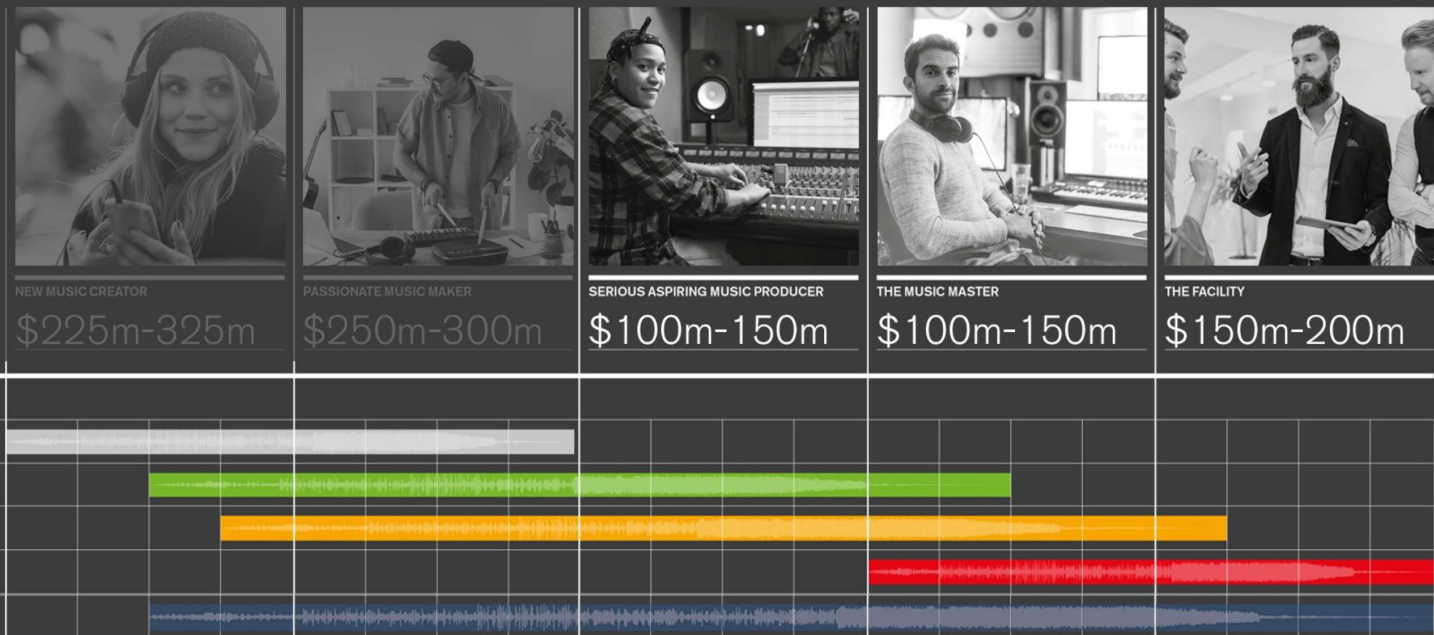
## The Master/Facility

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, ADAM Audio

Gateway brands: Novation



# Product sectors: Focusrite

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- Focusrite Pro



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



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

- Focusrite



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



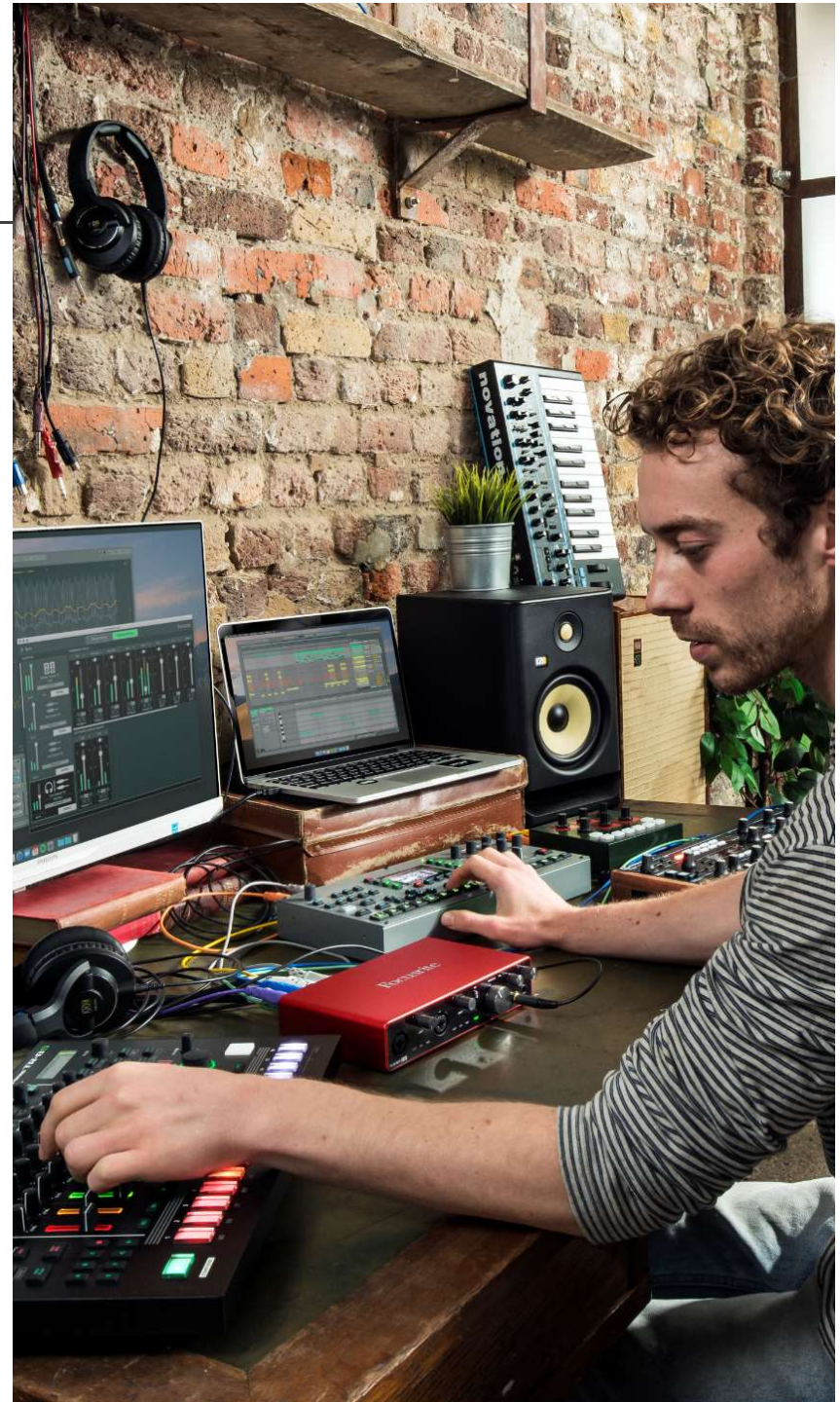
**Scarlett:** Mass market interface. Home user  
\$100 to \$500



## Product sectors: Focusrite

Focusrite	FY19	FY18
	£m	£m
Revenue	57.6	47.4

- Segment growth of 21.5% driven by strong demand for Scarlett
- Third generation of Scarlett interfaces launched; remains number one interface in the world
- Clarett gained numerous accolades including best overall audio interface in 'Sound on Sound'



## Product sectors: Focusrite Pro

Focusrite Pro	FY19	FY18
	£m	£m
Revenue	4.7	4.8

- Overall segment decline of 1.2%
- RedNet grew by 4%
- Red products nearing the end of their lifecycle
- Changes made to the sales organisation

*“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



# Product sectors: Novation

*including Ampify*

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## ○ Novation



### CONTROLLERS

*Physical interfaces to control music creation software*

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

Keyboard controllers: **Launchkey** - \$100 to \$250.



### STANDALONE

*Function on their own as sound generating devices*

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

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

## ○ Ampify



### SOFTWARE

*iOS apps that allow creation of music on iPhones/iPads*

Freemium iOS apps and add-on packs starting from \$1

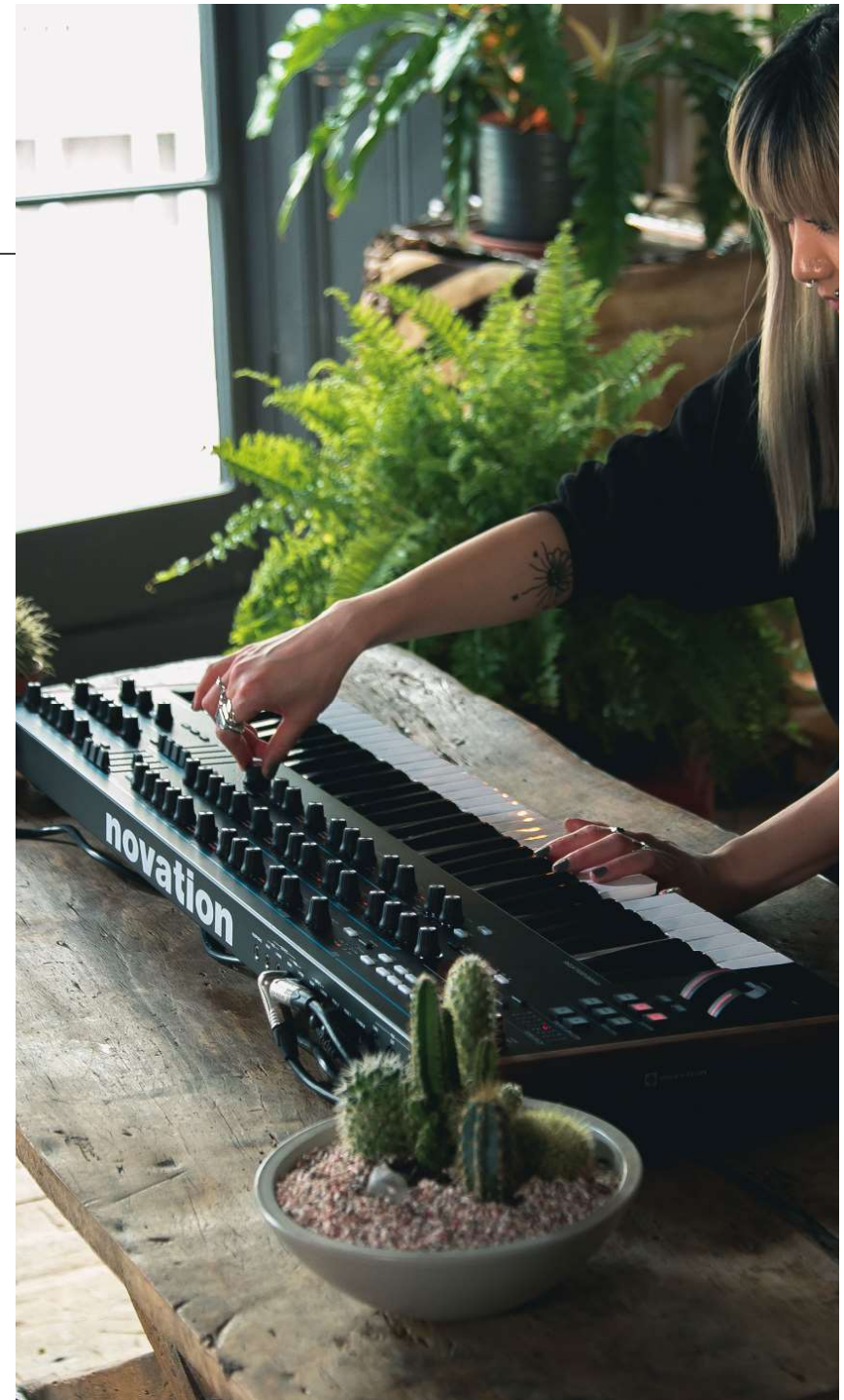


## Product sectors: Novation

*including Ampify*

Novation	FY19	FY18
	£m	£m
Revenue	17.7	20.1

- Launchkey range up 13%.
- Launchpad, the leading product range for Novation, was at the end of its lifecycle, leading to a decline of 11.7% across the segment.
  - Replaced since the year end
- Newly-launched SL Mark III 61 and 49 won awards and accolades from various industry media outlets.
- New flagship synthesiser, Summit, launched at the very end of FY19.
- Ampify. London innovation software division.
  - Music creation tools
  - Now over 10.5 million downloads cumulatively
  - Crucial part of business strategy going forward: grow the Group's software capability



## Product sectors: ADAM Audio

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### T Series

Entry level studio monitor: **\$400-\$500 per pair**



### S Series

High end studio monitor: **\$1,750-\$20,000 per unit**



### AX Series

Mid level studio monitor: **\$700-\$2,000 per pair**



### Subwoofers and headphones

Subwoofers: **\$700-\$8,000 per unit**

SP-5 headphones: **\$500**

## Product sectors: ADAM Audio

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ADAM Audio	FY19	FY18
	£m	£m
Revenue	1.8	-

- Brand equity
  - Quality and reliability
- Strong financials:
  - 2018 revenue: €12.9 million
  - 2018 adjusted EBITDA: €1.7 million
- Similar corporate culture
  - Customer-first focus
  - Constant innovation





## Product sectors: Distribution

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Distribution	FY19	FY18
	£m	£m
Revenue	2.8	2.9

- Add-on products within music-making industry but UK only and small overall.
- KRK monitors.
- Products that Focusrite and Novation customers need.
- This is part of our strategy which aims to increase lifetime value for our customers.



## Financial highlights for the year ended 31 August 2019

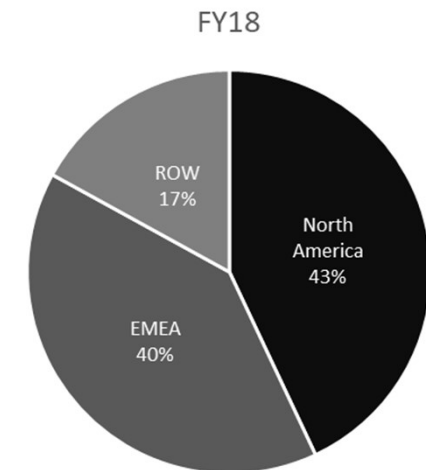
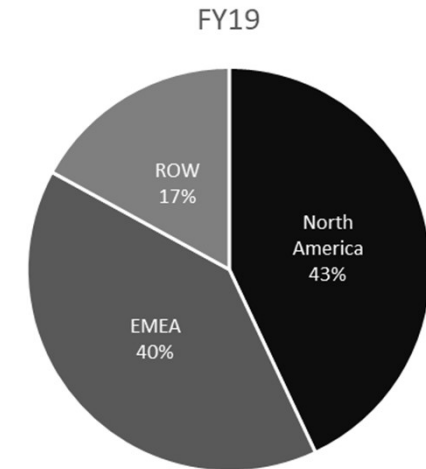
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- Group revenue up by 12.7% to £84.7 million (FY18: £75.1 million)
- EBITDA up by 11.1% to £17.2 million (FY18: £15.5 million)
- Operating profit up by 7.3% to £12.8 million (FY18: £11.9 million)
- Adjusted diluted earnings per share 21.4p, up by 21.6% (FY18: 17.6p)
- Net cash of £14.9 million (FY18: £22.8 million) after the purchase of ADAM Audio for £16.2 million.
- Final dividend of 2.6 pence, resulting in 3.8 pence for the year, up 15.2% on prior year

## FY19: Regional performance

Revenue	FY19	FY18
	£m	£m
North America	36.4	32.7
Europe, Middle East and Africa	34.0	29.7
Rest of World	14.3	12.7
Consolidated revenue	84.7	75.1

- North America: up 11.1% to £36.4m (constant currency growth 5%)
  - Demand for Novation weaker, exacerbated by the trade war and price increases
  - Some extra shipments in August ahead of further tariff increases.
  - Third generation Scarlett performed well.
  
- EMEA: up 14.6% to £34.0m (constant currency growth 12%)
  - Growth across most countries
  - Pronounced growth in Focusrite products but Novation declined
  
- Rest of World: up 12.5% to £14.3m (constant currency growth 5%)
  - Strong growth in Asia despite regional impact of trade war with US
  - South America: modest growth despite volatility



## Income Statement

	FY19	FY18
	£m	£m
<b>Revenue</b>	84.7	75.1
Cost of sales	(48.9)	(43.4)
<b>Gross profit</b>	35.8	31.7
Operating expenses before non-underlying items	(22.3)	(20.1)
<b>Operating profit before non-underlying items</b>	13.5	11.6
Non-underlying items	(0.7)	0.3
<b>Operating profit</b>	12.8	11.9
Net financing income/ (charges)	0.2	(0.2)
<b>Profit before tax</b>	13.0	11.7
Tax	(1.3)	(1.2)
<b>Profit after tax</b>	11.7	10.5
<b>Operating profit before non-underlying items</b>	13.5	11.6
Add back depreciation and amortisation	3.7	3.9
<b>EBITDA</b>	17.2	15.5

- Revenue up 12.7%
  - Constant currency growth 7.8%
  - Third generation of Scarlett
- Gross margin 42.2% (FY18: 42.2%)
  - Enhanced margin in first half of year in the US
  - Further tariffs led to lower margin in second half
- EBITDA up 11.1% to £17.2m (FY18: £15.5m)
- Tax 10.4% of profit before tax
  - R&D benefit continues to help

## Balance Sheet

	FY19	FY18
	£m	£m
Intangible assets	24.1	6.0
Tangible assets	1.6	1.3
<b>Total non current assets</b>	<b>25.7</b>	<b>7.3</b>
Inventories	15.2	11.4
Debtors and other investments	18.2	13.4
Cash	15.5	22.8
<b>Total current assets</b>	<b>48.9</b>	<b>47.6</b>
<b>Total assets</b>	<b>74.6</b>	<b>54.9</b>
<b>Capital and reserves</b>		
Share capital and other reserves	1.6	1.7
Retained earnings	51.8	41.7
<b>Total Equity</b>	<b>53.4</b>	<b>43.4</b>
Current liabilities	16.9	11.1
Non current liabilities	4.3	0.4
<b>Total liabilities</b>	<b>21.2</b>	<b>11.5</b>
<b>Total equity and liabilities</b>	<b>74.6</b>	<b>54.9</b>

- Intangible fixed assets:
  - Acquisition: £12.0m of identified intangible assets + £4.9m of goodwill
  - Remainder largely Focusrite cap'd R&D
- Working capital 20% of revenue
  - Inventories now includes ADAM £3.1m
  - Debtors higher due to significant sales of Scarlett close to the year end.
  - Current liabilities up by £5.8m to £16.9m (FY18: £11.1m)
    - Greater purchases of stock closer to FY19 year end.
    - No change in supplier payment terms or our aim to pay suppliers according to their terms.
- Non-current liabilities includes deferred tax on acquisition of £3.5m

## Cash flow

	FY19	FY18
	£m	£m
<b>EBITDA</b>	<b>17.2</b>	<b>15.5</b>
Movement in working capital	(2.6)	(0.2)
<b>Operating cash flow</b>	<b>14.6</b>	<b>15.3</b>
Interest received/(paid)	0.2	(0.1)
Tax paid	(0.8)	(0.5)
<b>Net cash from operating activities</b>	<b>14.0</b>	<b>14.7</b>
Investing	(19.9)	(4.5)
<b>Free cash flow</b>	<b>(5.9)</b>	<b>10.2</b>
Proceeds from share issue	-	0.3
Dividends	(2.0)	(1.7)
<b>Net change in cash</b>	<b>(7.9)</b>	<b>8.8</b>
FX movement	-	(0.2)
Opening cash	22.8	14.2
<b>Closing cash net of overdraft</b>	<b>14.9</b>	<b>22.8</b>

- Working capital increase due to the acquisition and business growth
- Investing £19.9m, (FY18: £4.5m)
  - Acquisition of ADAM
  - Capitalised R&D £3.8m (FY18: £3.0m)
- Free cash flow before acquisition 12.0% of revenue
  - Long term average 9-10%
- Closing net cash £14.9m after acquisition, compared to £22.8m at FY18
  - Also HSBC revolving credit facility of £10m



# Focusrite Growth Strategy

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## **Grow the core customer base**

The number of musicians not yet using technology to sculpt, perform or capture sound outnumbers those who do by as many as 14:1. Through innovation, disruptive technology and an unfaltering focus on our customers' needs, we can change this. Our more accessible and rewarding music-making experience will enable anyone to join the growing community of music makers.



## **Expand into new markets**

There are places in the world where the barriers to creativity are greater. Equally, there are creative minds that we've yet to support. We aim to remove the barriers to creativity for a whole new audience.



## **Increase lifetime value for our customers**

We will increase the lifetime value for our customers by maximising the value they get from making music.

We believe in the positive impact of being immersed in making music. Through a deeper understanding of our customers, our refined, integrated and augmented solutions will help to create the most immersive and rewarding music-making experience.

## Grow the core customer base

- Innovations that make music-making and audio production accessible
- Disruptive technology that genuinely challenges the status quo
- Perfectly integrated hardware and software that tackles our customers' pain points
- 'Best choice' solutions to fit every budget





## Expand into new markets

- Expansion of core products into new verticals:
  - Podcasting, streaming
- Geographic expansion:
  - Regional based personnel
  - Localisation initiatives
  - Closer touch with end-users
- Acquisition of more businesses that fit both strategically and culturally.





## Lifetime value for our Customers

- Lead the industry in putting the needs of the music-maker and audio engineer first
- Offer software and content to augment and enhance their creative process
- Create a connected experience that pulls their music-making environment together
- Support them on their creative journey, adding value through all the right music-making tools



## Conclusions

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- Revenue up 12.7% to £84.7 million (FY18: £75.1 million)
  - Focusrite strength continues, boosted by third generation Scarlett
  - Novation declined ahead of key product launches around the year end
- All regions grew
  - Group remains mindful of macroeconomic factors - strategies in place to respond to future developments
- Major product launches across key ranges
- EBITDA up by 11.1% to £17.2 million (FY18: £15.5 million)
- Net cash balance of £14.9 million (FY18: £22.8 million) after acquisition of ADAM
- Full year dividend of 3.8 pence, up 15.2% on prior year
- Look forward with continued confidence

# Focusrite Plc

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**Enriching Lives Through  
Music**