ENRICHING LIVES THROUGH MUSIC

19

Focusrite

INTERIM REPORT
SIX MONTHS TO 28 FEBRUARY 2019

FOCUSRITE PLC IS A GLOBAL MUSIC AND AUDIO TECHNOLOGY GROUP, SUPPLYING HARDWARE AND SOFTWARE SOLUTIONS TO MUSICIANS AND SOUND PROFESSIONALS

www.focusriteplc.com

Contents

BUSINESS HIGHLIGHTS

"Overall this was another pleasing performance with revenue exceeding that of the record revenue last year, and profit and cash rising more substantially. This has been reflected in the increased dividend. The Group needs to remain mindful of macroeconomic and political factors that affect its business, most notably import tariffs in the US, Brexit uncertainty and foreign exchange rates, but has strategies in place to deal with these.

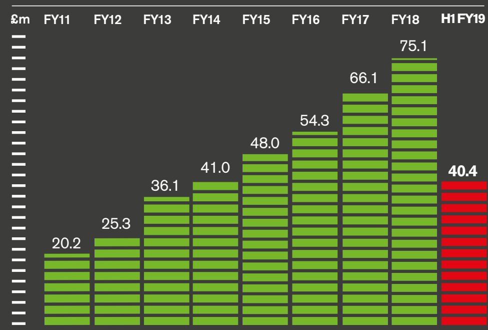
"The Group has a strong new product pipeline with several important launches planned during 2019. We have established ourselves as a market leader and our aim is to capitalise further on this by continuing to excite and empower our customers. We look forward with continued confidence."

Tim Carroll
Chief Executive Officer

FINANCIAL HIGHLIGHTS

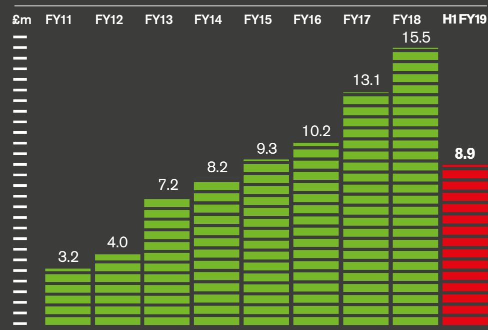
GROUP REVENUE

£40.4m **+4.1%**



EBITDA[1]

£8.9m **+11.4%**



1 Comprising of earnings adjusted for interest, taxation, depreciation and amortization. This is shown on the face of the income statement.

BUSINESS AND OPERATING REVIEW

OVERVIEW

Focusrite is pleased to report Half Year Results that show continued growth.

Total revenue for the period grew to £40.4 million (HY18: £38.8 million), with the Group's gross margin increasing to 44.3% (HY18: 41.7%), resulting in EBITDA increasing to £8.9 million (HY18: £8.0 million) and diluted earnings per share increasing to 11.0 pence, up 23.6% from 8.9 pence in HY18.

Research and development remains core to our strategy and a key driver of our growth. During this half year, we introduced two new hardware products and delivered five upgrades to existing products. We continue to refine our out-of-box experience, thereby significantly reducing the actual time between a consumer's first contact with our products and making music. These efforts continue to be well received by our customers and are a key factor in our ongoing high Net Promoter Scores. In a possible range of scores from -100 to +100, our Net Promoter Scores are typically at least +60.

Our strategy of innovation and expansion continues to underpin our growth and we remain committed to removing barriers to creativity for professionals and hobbyists alike. Our success is driven by our entrepreneurial and talented team, many of whom are themselves musicians, and their skill and loyalty are the bedrock of our success. To that end, our number of employees has grown to 230 globally.

Financial highlights

- Group revenue up by 4.1% to £40.4 million (0.5% at constant currency[1]) (HY18: £38.8 million)
- EBITDA[2] up by 11.4% to £8.9 million (HY18: £8.0 million)
- Operating profit up by 16.4% to £7.3 million (HY18: £6.2 million)
- Profit before tax up by 22.6% to £7.2 million (HY18: £5.8 million)
- Basic earnings per share up 23.3% to 11.1p (HY18: 9.0p)
- Diluted earnings per share up by 23.6% to 11.0p (HY18: 8.9p)
- Net cash of £26.2 million (FY18: £22.8 million, HY18: £19.7 million)
- Interim dividend of 1.2 pence, up 20.0% from 1.0 pence in HY18

1 The constant currency revenue growth rate is calculated by dividing the sum of all transactions in HY19, translated at the average exchange rate for the relevant currency in HY18, by the sum of all transactions in HY18, translated at the same average exchange rate.

2 Comprising of earnings adjusted for interest, taxation, depreciation and amortization. This is shown on the face of the income statement.

FOCUSRITE
THE NUMBER ONE AUDIO INTERFACE BRAND IN THE WORLD

BUSINESS AND OPERATING REVIEW CONTINUED

OPERATING REVIEW

Overall, the Group has continued to perform strongly both operationally and financially. Our roadmap continues to evolve, firmly planted in the three pillars of our strategy: grow our core customer base, increase lifetime value for our customers, and expand into new markets.

We have established ourselves as a market leader and our aim is to capitalise further on this by continuing to excite and empower our customers. By improving the product and customer experience, we will seek to extend the customer lifecycle, encouraging them to use our products throughout their music-making lifetime.

Innovation continues to be a core part of our company's DNA and paramount to our success. We continue to spend circa 6% of annual revenue on research and development to provide a constant pipeline of new and relevant products for the people that buy our products.

We launched two new products during the period: the SL Mark III 61 and 49 key master controller keyboards which have already won awards and accolades from various industry media outlets. Additionally, we released software and firmware updates for the Bass Station, Peak, Circuit, RedNet and Focusrite products. These updates provided significant benefits and upgrades in terms of functionality for these products, both delighting existing customers and attracting new customers as well. All of our launches have been well accepted and feedback from the consumer, retailer and distribution channels has been very positive.

SEGMENTAL REVIEW

	Six months to February 2019 £'000	Six months to February 2018 £'000	Year to August 2018 £'000
Focusrite	**26,308**	23,434	47,431
Focusrite Pro	**2,594**	2,259	4,762
Novation including Ampify	**9,827**	11,419	20,066
Distribution	**1,696**	1,707	2,862
Total	**40,425**	38,819	75,121

Focusrite

Focusrite has increased by 12.3% to £26.3 million, with both the Scarlett and Clarett ranges increasing. Among existing products, our second generation Scarlett USB audio interface range has continued to gain market share since its launch in June 2016. The Clarett range has also seen growth in market share, as our USB range (introduced in 2018) continues to win over customers in the mid-range price categories.

Focusrite Pro

Focusrite Pro was carved out as a separate brand in 2017, when it became clear that equipment representing a substantial capital purchase for corporates required a different sales approach from the lower cost Scarlett range which was directed at new music creators and passionate music makers.

Our Pro sales and marketing team continues to execute on their strategy of focusing on enterprise-level customers where audio over IP provides strategic benefits. This includes post production, broadcast, live sound and installed sound. Focusrite Pro is considered a leader in providing complete solutions for networked audio in these verticals. Consequently, Focusrite Pro has been the quickest growing segment of the Group, with revenue growth of 14.8% to £2.6 million.

Novation

The Novation segment is directed towards the creation of music and consists of the Novation and Ampify brands. In HY18, this segment grew by 19%, driven by the Launchpad range growing at 26%. This year, Launchkey and synthesisers generated solid results, but Launchpad, which is now in its fourth year, has declined leading to the Novation segment declining by 13.9% to £9.8 million. The Novation product pipeline for the next 18 months will yield a number of both updated and completely new products that will boost the portfolio.

Ampify

The London innovation division continues to disrupt the market with a growing portfolio of innovative music-making software. The new Ampify brand is driving awareness of music creation to a vast new market of music creators, which in turn supports the growth of the Focusrite and Novation brands. The suite of music apps has now reached an impressive 10.5 million downloads, and this number is increasing at around 120,000 per month. The team has also localised our most popular app, Launchpad, into Chinese with more languages to come.

Software remains a crucial component of the business strategy to solve the problems of music creation, increasing customer loyalty and overall lifetime value. The Ampify team is growing and has a clear roadmap to expand the portfolio into more cross-platform music creation solutions that will both complement our hardware sales and attract new customers as well.

Distribution

As in previous years the Group distributes products in the UK, such as studio monitors and microphones manufactured by other organisations. Revenue was £1.7 million, similar to HY18.

Whilst Focusrite's distribution of adjacent products remains a small overall proportion of Group revenue, it is profitable, and it is important to us as it offers add-on products within the music-making industry and provides us with valuable market feedback and insight.

REGIONAL REVIEW

	Six months to February 2019 £'000	Six months to February 2018 £'000	Year to August 2018 £'000
Europe, Middle East and Africa (EMEA)	**19,315**	15,997	29,706
North America	**14,963**	16,852	32,720
Rest of World	**6,147**	5,970	12,695
Total	**40,425**	38,819	75,121

The Group's products are sold globally and performance can vary period on period depending on regional factors.

BUSINESS AND OPERATING REVIEW CONTINUED

EMEA represents 48% of Group revenue. EMEA produced a great result, growing 20.7% (constant currency: 18.4%) to £19.3 million. Brexit remains a meaningful area of uncertainty. Management have considered the cost and time implications of Brexit and put in place strategies to deal with the various outcomes. With regard to cost, the products sold by the Group have low rates of duty. Therefore the risk of significant double duty is modest. Notwithstanding this, the Group has discussed the principle of a warehouse within continental Europe with its operations provider, Kuehne + Nagel, and is confident that, if needed, this can be set up within a sensible timescale. With regard to the risk of export to continental Europe taking significant additional time, the Group ships stock via AEO (Authorised Economic Operator) accredited carriers who have the best chance of navigating the possible additional customs hurdles. Second, in many countries within Europe, the Group is selling to a distributor (who subsequently sells to retailers, who in turn sell to the consumer). This means that stock is often not needed next day. Finally, it is also relevant that some distributors within continental Europe ordered c£0.5 million additional stock in February, recognising the potential risk inherent in an uncertain Brexit solution.

North America remains an important market for the Group and during the period accounted for 37% of Group Revenues. While revenue declined by 11.2%, (constant currency: a decline of 15.8%) to £15.0 million, gross profit in the North America region was broadly similar to the record level achieved in HY18. Across the US, the introduction of increased import tariffs caused upheaval in all industries in which product is routinely manufactured in China. Some of the Group's products were impacted by this US governmental decision. In particular, the US import tariffs on many of the Focusrite products increased from 0% to 10% in October 2018. The Group decided that it had to act quickly to protect its margin and so it swiftly raised the Minimum Advertised Price (MAP) for these products in the US. For most products (and Scarlett in particular) demand was maintained despite the higher prices. For some products in the Novation ranges, demand was hit by the higher MAP for those products, but this was combined with the fact that demand for the ageing Launchpad range declined naturally in common with other regions of the world. The threat of a further increase in import tariffs from 10% to 25% remains. The Board is clear that it wishes to protect the profitability of the Group but is mindful of the fact that, if prices keep on being increased, at some point this will damage demand. Therefore the Group is actively considering other means of managing this increased cost and reducing its dependency on China-based manufacturing.

The Rest of the World ('ROW') comprises mainly Asia and South America and comprises the remaining 15% of Group revenue. Overall, ROW grew by 3.0% (constant currency: decline of 1.2%) to £6.1 million. The trade war between China and the US affected the economy in many Asian countries. Despite this, the Group continued its healthy growth in the region, with revenue growing by 10.0%. Latin America fell by 3.8%, reflecting the local market turbulence in Argentina and Chile. Within the last year, the new regional sales manager has made great strides in changing some of the distributors and co-ordinating the Group's e-commerce, marketing and logistics arrangements, as well as putting in place product localisation, to improve the offering to the customer. The Group believes this will pay dividends in the future.

NOVATION
INVENTING THE INSTRUMENTS THAT HELP SHAPE ELECTRONIC MUSIC

BUSINESS AND OPERATING REVIEW CONTINUED

FINANCIAL REVIEW

Overview

Pleasingly, the Group has experienced another strong half year with expectations reached or exceeded in all key financial metrics. Group revenues grew by 4.1%, EBITDA grew by 11.4% and adjusted diluted earnings per share grew by 23.6%. Cash has also increased from £22.8 million at 31 August 2018 to £26.2 million at 28 February 2019, despite the payment of an increased FY18 final dividend of £1.3 million. Consequently, the Board has increased the interim dividend for FY19 to 1.2p, up 20.0% from 1.0p last year.

Revenue

Revenue grew 4.1% (0.5% at constant exchange rates) from £38.8 million to £40.4 million. This is lower revenue growth than in prior periods but it was expected due largely to the record revenue comparison in the first half of FY18 and the macroeconomic factors discussed in the operating review.

Gross profit

We are also pleased to announce that the gross margin grew to 44.3% (HY18, 41.7%). This was largely due to the initial effect of the price increases in the US. Without these, the gross margin would have been 43.3%, which is higher than the prior year, reflecting the product mix benefit of Focusrite Pro and the Group's efforts to manage gross margin more effectively.

Administrative expenses

Administrative expenses consist of sales, marketing, operations, the uncapitalised element of R&D and central functions such as legal, finance and the Group Board. These expenses were £10.7 million, up from £10.0 million last year. The major growth areas were research and development (some of which was capitalised as in previous years), and sales and marketing (particularly the regional investments in the US and Asia). Research and development costs were increased to 6.5% of revenue, recognising the vital contribution of the research and development teams in developing the products that will generate future growth for the Group. Innovation is clearly a key focus for us and remains a key driver of growth.

EBITDA

EBITDA increased by 11.4% to £8.9 million (HY18: £8.0 million) due to the higher revenue, the price increases in the US, and the Group's efforts to manage carefully the discounts offered to the distribution channel. EBITDA is used within the Group as a measure of underlying trading performance and it forms the basis of the incentivisation of some of the senior management within the Group.

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. In the half year, the development costs capitalised were £1.8 million (HY18: £1.4 million) and the amortisation was £1.0 million (HY18: £1.2 million).

Non-underlying items

The Group did not have any non-underlying items in either HY19 or HY18.

Foreign exchange and hedging

The exchange rates have been as follows:

	Six months to 28 February 2019	Six months to 28 February 2018	Year to 31 August 2018
Exchange rates			
Average $:£	**1.29**	1.35	1.35
Average €:£	**1.13**	1.13	1.13
Period end $:£	**1.33**	1.38	1.30
Period end €:£	**1.17**	1.13	1.12

The average US Dollar rate to sterling was $1.29 compared to $1.35 in HY18. The US Dollar accounts for approximately 50% of Group revenue so this improves revenue growth marginally. However, the Group also buys products in US Dollars and has some US Dollar operating costs, so there is a natural hedge. Therefore, the US Dollar's strengthening increased revenue but had little effect on gross profit.

The Euro rate was more consistent, remaining at €1.13. Approximately 30% of the Group's revenue is in Euro with few Euro costs so any movement affects the profit. The Group seeks to mitigate this exposure through its hedging arrangements and aims to hedge 75% of net Euro flows. Irrespective of any operational complications associated with Brexit, a further effect of any (or no) Brexit solution could be a meaningful change in the Euro:GBP exchange rate. For example, in the week of the Brexit vote, the GBP weakened from €1.30 to €1.20. Some of this effect would be protected by the hedging arrangements. The remainder would flow through the income statement.

Hedge accounting is used for these Euro to Sterling hedging contracts, 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.

Corporation tax

Corporation tax as a proportion of profit before tax was 11% (HY18: 12%). The major part 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 R&D costs.

Earnings per share (EPS)

The basic EPS for the half year increased to 11.1 pence, up 23.3% from 9.0 pence in HY18. The increase was largely due to the higher trading profit. The Group aims to ensure that all employees have options so the diluted earnings per share is also particularly relevant. This was 11.0 pence, up 23.6% from 8.9 pence in HY18.

BALANCE SHEET

Non-current assets

The non-current assets comprise mainly capitalised development costs; property, plant and equipment; and software. Approximately 70% of development costs are capitalised and they are amortised over three years. This policy is unchanged from last year.

BUSINESS AND OPERATING REVIEW CONTINUED

Working capital
Working capital increased from 16.2% of revenue in HY18 to 19.8% of revenue in HY19. At this level, working capital remains controlled, and cash flow in the period was strong. However, it is important to note that stock would normally be expected to increase when a major range is introduced. This is due to a period of higher stock as the Group manufactures large quantities of the new range for the initial supply to the resellers as well as reducing stocks of the superseded range. This is likely in H2 of this financial year given our forthcoming product launches.

Customers are pressed to ensure that they pay on time. At the half year, 96% of customer debts were within terms. Suppliers are paid on time.

Cash flow
The Group once again experienced a strong performance in its cash generation, with a total cash balance as at 28 February 2019 of £26.2 million. This was up from £22.8 million at 31 August 2018 and £19.7 million at 28 February 2018 respectively. There was no debt in either period. This increase in cash of £3.4 million in the period was despite paying an increased dividend costing £1.3 million. Therefore the free cash flow as a percentage of revenue was 12.0% versus a long-term average, since IPO of 10.1%. The Group has a committed five-year £10 million revolving credit facility with HSBC, expiring in December 2020.

The cash balance, together with the debt facility, provides significant firepower for the Group to make an acquisition in line with its stated strategic initiative to expand into new markets. The Group continues to review acquisition targets, which fit the Board's stringent criteria of: concentrating on businesses which are in closely related market segments; are earnings accretive; and well managed.

Dividend
The Board has approved an interim dividend of 1.2 pence per share, which is an increase of 20% over the FY18 interim dividend of 1.0 pence.

SUMMARY AND OUTLOOK
Overall this was another pleasing performance with revenue exceeding that of the record revenue last year, and profit and cash rising more substantially. This has been reflected in the increased dividend. The Group needs to remain mindful of macroeconomic and political factors that affect its business, most notably import tariffs in the US, Brexit uncertainty and foreign exchange rates, but has strategies in place to deal with these.

The Group has a strong new product pipeline with several important launches planned during 2019. We have established ourselves as a market leader and our aim is to capitalise further on this by continuing to excite and empower our customers. We look forward with continued confidence.

Tim Carroll
Chief Executive Officer

Jeremy Wilson
Chief Financial Officer

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 two distinct product categories and is working to reduce reliance on any single product or territory.
BREXIT	The impact of the decision to exit the European Union remains uncertain. There has already been foreign exchange volatility. It is probable that the UK will not be part of the customs union and the Group anticipates the imposition of some additional duties and minor disruption to the logistics network.	Approximately 30% of Group revenue is to continental Europe. This is supplied via the UK. The Group has previously increased selling prices in the UK to correct the imbalance caused by the significant foreign exchange rate changes. Additionally, the Group has considered the potential additional duty cost and has also discussed an operations contingency with its external provider, Kuehne + Nagel. Currently the additional duty cost is expected to be modest but the option of an additional distribution centre is feasible at moderate cost and lead time. Furthermore, the Group has discussed the delivery risks surrounding logistics with its external carriers, who are Authorised Economic Operator (AEO) accredited. Finally, it should be noted that the Group generally supplies a local distributor which then sells to the local retailers. This means that the Group's sales are often not time critical because the rest of the distribution channel maintains its own local stock.
US TARIFFS	In October 2018 the US implemented tariffs of 10% (potentially rising to 25% in mid 2019) on the importing of most products manufactured in China. The Group has product manufactured in China, so selling product in the US will become more expensive.	Within the US, the Group has increased the minimum advertised price to cover the additional tariffs. Additionally, the Group is considering alternative methods of manufacturing stock allowing both reduced duty and potentially some mitigation of wider product sourcing risks.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

RISK AREA	DESCRIPTION	MITIGATION
TECHNOLOGICAL CHANGES, PRODUCT INNOVATION AND COMPETITION	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.	R&D 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.
DEPENDENCE ON A SMALL NUMBER OF SUPPLIERS	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 Chinese 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.
KEY RESELLERS AND DISTRIBUTORS	In certain countries, including the US, 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.
DEVELOPMENT OF THE 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 RISKS	The Group is exposed to currency and exchange rate fluctuations which may affect the Group's revenue and costs when reported in Sterling.	There is a largely effective natural hedge for US Dollar transactions as the Group uses its generation of US Dollars to buy product in US Dollars. In addition, the Group mitigates its Euro exposure by entering into forward foreign exchange hedging contracts for the conversion of Euros to Sterling.

RISK AREA	DESCRIPTION	MITIGATION
SCARCITY OF EXPERIENCED TECHNICAL PERSONNEL	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 AND DATA PROTECTION	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 cyberthreats 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 half 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.

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 28 FEBRUARY 2019

	Note	**Six months to 28 February 2019 (unaudited) £'000**	Six months to 28 February 2018 (unaudited) £'000	Year to 31 August 2018 (audited) £'000
Revenue	2	**40,425**	38,819	75,121
Cost of sales		**(22,504)**	(22,619)	(43,447)
Gross profit		**17,921**	16,200	31,674
Administrative expenses		**(10,670)**	(9,970)	(19,732)
EBITDA (non-GAAP measure)		**8,881**	7,969	15,485
Depreciation and amortisation		**(1,630)**	(1,739)	(3,872)
Non-underlying items		**–**	–	329
Operating profit		**7,251**	6,230	11,942
Finance income		**75**	1	4
Finance costs		**(176)**	(398)	(274)
Profit before tax		**7,150**	5,833	11,672
Income tax expense	4	**(790)**	(709)	(1,199)
Profit for the period from continuing operations		**6,360**	5,124	10,473

Earnings per share				
From continuing operations				
Basic (pence per share)	6	**11.1**	9.0	18.4
Diluted (pence per share)	6	**11.0**	8.9	18.1

CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 28 FEBRUARY 2019

	Six months to 28 February 2019 (unaudited) £'000	Six months to 28 February 2018 (unaudited) £'000	Year to 31 August 2018 (audited) £'000
Profit for the period	**6,360**	5,124	10,473
Items that may be reclassified subsequently to the income statement			
Exchange differences on translation of foreign operations	**(24)**	(30)	19
Gain on forward foreign exchange contracts designated and effective as a hedging instrument	**785**	743	541
Tax on hedging instrument	**(149)**	(144)	(106)
Total comprehensive income for the period	**6,972**	5,693	10,927
Profit attributable to:			
Equity holders of the Company	**6,972**	5,693	10,927
	6,972	5,693	10,927

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	28 February 2019 (unaudited) £'000	28 February 2018 (unaudited) £'000	31 August 2018 (audited) £'000
Assets				
Non-current assets				
Goodwill		**419**	419	419
Other intangible assets		**6,308**	4,818	5,620
Property, plant and equipment		**1,211**	1,369	1,275
Total non-current assets	3	**7,938**	6,606	7,314
Current assets				
Inventories		**12,295**	10,894	11,391
Trade and other receivables		**12,254**	10,811	13,310
Derivative financial instruments	7	**842**	258	100
Cash and cash equivalents	7	**26,172**	19,734	22,811
Total current assets		**51,563**	41,697	47,612
Total assets		**59,501**	48,303	54,926
Equity and liabilities				
Capital and reserves				
Share capital		**58**	58	58
Share premium		**115**	114	115
Merger reserve		**14,595**	14,595	14,595
Merger difference reserve		**(13,147)**	(13,147)	(13,147)
Translation reserve		**26**	1	50
Hedging reserve		**682**	210	46
EBT reserve		**(1)**	(2)	(1)
Retained earnings		**46,949**	36,451	41,731
Equity attributable to owners of the Company		**49,277**	38,280	43,447
Total equity		**49,277**	38,280	43,447
Current liabilities				
Trade and other payables		**8,437**	9,126	10,709
Provisions		**200**	–	–
Current tax liabilities		**728**	257	427
Total current liabilities		**9,365**	9,383	11,136
Non-current liabilities				
Deferred tax		**859**	640	300
Derivative financial instruments	7	**–**	–	43
Total liabilities		**10,224**	10,023	11,479
Total equity and liabilities		**59,501**	48,303	54,926

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 28 FEBRUARY 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 2018	58	115	14,595	(13,147)	50	46	(1)	41,731	43,447
Profit for the period	–	–	–	–	–	–	–	6,360	6,360
Other comprehensive income for the period	–	–	–	–	(24)	636	–	–	612
Total comprehensive income for the period	–	–	–	–	(24)	636	–	6,360	6,972
Transactions with owners of the Company:									
Share-based payment deferred tax deduction in excess of remuneration expense	–	–	–	–	–	–	–	(303)	(303)
Share-based payment current tax deduction in excess of remuneration expense	–	–	–	–	–	–	–	303	303
Shares from EBT exercised	–	–	–	–	–	–	–	44	44
Shares withheld to settle employees' tax obligations associated with share-based payments	–	–	–	–	–	–	–	(205)	(205)
Share-based payments	–	–	–	–	–	–	–	162	162
Premium on shares awarded in lieu of bonuses	–	–	–	–	–	–	–	175	175
Dividends paid	–	–	–	–	–	–	–	(1,318)	(1,318)
Balance at 28 February 2019	58	115	14,595	(13,147)	26	682	(1)	46,949	49,277

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY CONTINUED

FOR THE SIX MONTHS ENDED 28 FEBRUARY 2018

	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	–	–	–	–	–	–	–	5,124	5,124
Other comprehensive income for the period	–	–	–	–	(30)	599	–	–	569
Total comprehensive income for the period	–	–	–	–	(30)	599	–	5,124	5,693
Transactions with owners of the Company:									
Share-based payment deferred tax deduction in excess of remuneration expense	–	–	–	–	–	–	–	(254)	(254)
Share-based payment current tax deduction in excess of remuneration expense	–	–	–	–	–	–	–	661	661
Shares from EBT exercised	–	–	–	–	–	–	1	188	189
New shares issued	–	114	–	–	–	–	–	–	114
Share-based payments	–	–	–	–	–	–	–	103	103
Dividends paid	–	–	–	–	–	–	–	(1,110)	(1,110)
Balance at 28 February 2018	58	114	14,595	(13,147)	1	210	(2)	36,451	38,280

FOR THE YEAR ENDED 31 AUGUST 2018

	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
Shares from EBT exercised	–	–	–	–	–	–	2	189	191
New shares issued	–	115	–	–	–	–	–	–	115
Share-based payments	–	–	–	–	–	–	–	216	216
Dividends paid	–	–	–	–	–	–	–	(1,679)	(1,679)
Balance at 31 August 2018	58	115	14,595	(13,147)	50	46	(1)	41,731	43,447

CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE SIX MONTHS ENDED 28 FEBRUARY 2019

	Six months to 28 February 2019 £'000	Six months to 28 February 2018 £'000	Year to 31 August 2018 £'000
Cash flows from operating activities			
Profit for the period	**6,360**	5,124	10,473
Adjustments for:			
Income tax expense	**790**	709	1,199
Net finance charge/(income)	**101**	397	270
Loss/(profit) on disposal of property, plant and equipment	**–**	–	(14)
Amortisation of intangibles	**1,271**	1,399	2,804
Depreciation of property, plant and equipment	**359**	340	740
Movement in provisions	**200**	–	–
Share-based payment charge	**162**	103	216
Operating cash flow before movements in working capital	**9,243**	8,072	15,688
Decrease/(increase) in trade and other receivables	**1,056**	2,141	(358)
(Increase) in inventories	**(904)**	(2,560)	(3,057)
(Decrease)/increase in trade and other payables	**(2,272)**	1,406	2,989
Operating cash flow before interest and tax paid	**7,123**	9,059	15,262
Net interest received/(paid)	**75**	(29)	(36)
Income tax paid	**(79)**	(253)	(478)
Net cash inflow from operating activities	**7,119**	8,777	14,748
Cash flows from investing activities			
Purchases of property, plant and equipment	**(295)**	(340)	(632)
Development of intangible assets	**(1,959)**	(1,673)	(3,880)
Net cash used in investing activities	**(2,254)**	(2,013)	(4,512)
Cash flows from financing activities			
Issue of equity shares	**14**	303	306
Equity dividends paid	**(1,318)**	(1,110)	(1,679)
Net cash used in financing activities	**(1,304)**	(807)	(1,373)
Net increase in cash and cash equivalents	**3,561**	5,957	8,863
Net foreign exchange movement	**(200)**	(397)	(226)
Cash and cash equivalents at beginning of the period	**22,811**	14,174	14,174
Cash and cash equivalents at end of the period	**26,172**	19,734	22,811

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Focusrite Plc (the 'Company') is a company incorporated in the UK. The condensed consolidated interim financial statements ('interim financial statements') as at and for the six months ended 28 February 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.

Statement of compliance

The interim financial statements are for the six months ended 28 February 2019 and are presented in pounds Sterling ('GBP'). This is the functional currency of the Group. The statement is presented to the nearest £1,000 ('£'000'). The interim financial report has been prepared in accordance with the International Financial Reporting Standards ('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 AIM listed companies. AIM listed companies are not required to comply with IAS 34 'Interim Financial Reporting' and accordingly the Company has taken advantage of this exemption. They do not include all the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 August 2018.

These interim financial statements were authorised for issue by the Company's Board of Directors on 30 April 2019.

The comparative figures for the financial year ended 31 August 2018 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Significant accounting policies

The interim financial statements have been prepared in accordance with the accounting policies adopted in the Group's financial statements for the year ended 31 August 2018, with the exception of the following:

Adoption of IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 was adopted by the Group on 1st September 2018, using the modified retrospective transition 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.

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Adoption of IFRS 9 'Financial Instruments'

IFRS 9 was adopted by the Group on 1st 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 1st 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.

1.1 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and subsidiaries controlled by the Company drawn up to 28 February 2019.

1.2 Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases.

1.3 Going concern

The Board of Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

1.4 Earnings per share

The Group presents basic and diluted earnings per share ('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.

1.5 Accounting estimates and judgements

In application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by the Directors in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those applied to the Group's financial statements for the year ended 31 August 2018.

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

1.6 Foreign currencies

The individual financial statements of each subsidiary are presented in the currency of the primary economic environment in which it operates (its functional currency). Sterling is the predominant functional currency of the Group and presentation currency for the consolidated financial information.

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

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;
- 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.

1.7 Hedge accounting

The Group has adopted hedge accounting for qualifying transactions. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities of firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

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.

For cash flow hedges, 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 forecast transaction affects profit or loss.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

When a hedging instrument expires or is sold, 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.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability.

2. REVENUE

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

	Six months to February 2019			
	EMEA £'000	**North America £'000**	**Rest of World £'000**	**Total £'000**
Focusrite	**11,975**	**10,580**	**3,753**	**26,308**
Focusrite Pro	**642**	**1,562**	**390**	**2,594**
Focusrite segment	**12,617**	**12,142**	**4,143**	**28,902**
Novation segment	**5,002**	**2,821**	**2,004**	**9,827**
Distribution segment	**1,696**	**–**	**–**	**1,696**
Total	**19,315**	**14,963**	**6,147**	**40,425**

	Six months to February 2018			
	EMEA £'000	North America £'000	Rest of World £'000	Total £'000
Focusrite	9,019	10,953	3,462	23,434
Focusrite Pro	660	1,346	253	2,259
Focusrite segment	9,679	12,299	3,715	25,693
Novation segment	4,611	4,553	2,255	11,419
Distribution segment	1,707	–	–	1,707
Total	15,997	16,852	5,970	38,819

	Year to August 2018			
	EMEA £'000	North America £'000	Rest of World £'000	Total £'000
Focusrite	17,687	22,402	7,342	47,431
Focusrite Pro	1,528	2,538	696	4,762
Focusrite segment	19,215	24,940	8,038	52,193
Novation segment	7,629	7,780	4,657	20,066
Distribution segment	2,862	–	–	2,862
Total	29,706	32,720	12,695	75,121

2. REVENUE CONTINUED

In the HY18 interim report the Group disclosed revenue earned in Canada within the Rest of the World region. In the FY18 Annual Report and subsequent financial statements the Group discloses revenue earned in Canada within the North America region. The table below sets out the regional analysis of revenue under the previous classification:

	Six months to February 2019			
	EMEA £'000	**USA £'000**	**Rest of World £'000**	**Total £'000**
Focusrite	**11,975**	**10,139**	**4,194**	**26,308**
Focusrite Pro	**642**	**1,535**	**417**	**2,594**
Focusrite segment	**12,617**	**11,674**	**4,611**	**28,902**
Novation segment	**5,002**	**2,593**	**2,232**	**9,827**
Distribution segment	**1,696**	**–**	**–**	**1,696**
Total	**19,315**	**14,267**	**6,843**	**40,425**

	Six months to February 2018			
	EMEA £'000	USA £'000	Rest of World £'000	Total £'000
Focusrite	9,019	10,532	3,883	23,434
Focusrite Pro	660	1,278	321	2,259
Focusrite segment	9,679	11,810	4,204	25,693
Novation segment	4,611	4,313	2,495	11,419
Distribution segment	1,707	–	–	1,707
Total	15,997	16,123	6,699	38,819

	Year to August 2018			
	EMEA £'000	USA £'000	Rest of World £'000	Total £'000
Focusrite	17,687	21,389	8,355	47,431
Focusrite Pro	1,528	2,385	849	4,762
Focusrite segment	19,215	23,774	9,204	52,193
Novation segment	7,629	7,410	5,027	20,066
Distribution segment	2,862	–	–	2,862
Total	29,706	31,184	14,231	75,121

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

3. OPERATING SEGMENTS

Products and services from which reportable segments derive their revenues

Information reported to the Group's Chief Executive Officer (who has been determined to be the Group's Chief Operating Decision Maker) for the purposes of resource allocation and assessment of segment performance is focused on the main product groups which the Group sells. While the results of Focusrite and Focusrite Pro are reported separately to the Board, they are aggregated together for the purposes of segmental reporting. Similarly, the results of Novation and Ampify also met 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 and Focusrite Pro branded products

Novation – Sales of Novation and Ampify branded products

Distribution – Distribution of third-party brands, including KRK speakers, Stanton, Cerwin Vega, Cakewalk and sE Electronics

The revenue and profit generated by each of the Group's operating segments are summarised as follows:

	Six months to 28 February 2019 (unaudited) £'000	Six months to 28 February 2018 (unaudited) £'000	Year to 31 August 2018 (audited) £'000
Revenue from external customers			
Focusrite	**28,902**	25,693	52,193
Novation	**9,827**	11,419	20,066
Distribution	**1,696**	1,707	2,862
Total	**40,425**	38,819	75,121
Segment profit			
Focusrite	**14,850**	12,503	25,107
Novation	**5,013**	6,000	10,063
Distribution	**424**	481	795
	20,287	18,984	35,965
Central distribution costs and administrative expenses	**(13,036)**	(12,754)	(24,352)
Non-underlying items	**–**	–	329
Operating profit	**7,251**	6,230	11,942
Finance income	**75**	1	4
Finance costs	**(176)**	(398)	(274)
Profit before tax	**7,150**	5,833	11,672
Tax	**(790)**	(709)	(1,199)
Profit after tax	**6,360**	5,124	10,473

3. OPERATING SEGMENTS CONTINUED

Segment profit represents the profit earned by each segment without allocation of the share of central administration costs, including Directors' salaries, finance income and finance costs, and income tax expense. This is the measure reported to the Group's Chief Executive Officer for the purpose of resource allocation and assessment of segment performance.

Central administration costs comprise principally the employment-related costs and other overheads incurred by the Group. Also included within central administration costs is the charge relating to the share option scheme of £162,000 for the six-month period to 28 February 2019 (six months to 28 February 2018: £103,000; year to 31 August 2018: £216,000).

Segment net assets and other segment information

Management does not make use of segmental data relating to net assets and other balance sheet information for the purposes of monitoring segment performance and allocating resources between segments. Accordingly, other than the analysis of the Group's non-current assets by region shown below, this information is not available for disclosure in the consolidated financial information.

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

	28 February 2019 (unaudited) £'000	28 February 2018 (unaudited) £'000	31 August 2018 (audited) £'000
Non-current assets			
USA	**68**	99	81
Europe, Middle East and Africa	**7,335**	5,865	6,705
Rest of World	**535**	642	528
Total non-current assets	**7,938**	6,606	7,314

4. TAXATION

The tax charge for the six months to 28 February 2019 is based on the estimated tax rate for the full year in each jurisdiction.

5. DIVIDENDS

The following equity dividends have been declared:

	Six months to 28 February 2019 (unaudited)	Six months to 28 February 2018 (unaudited)	Year to 31 August 2018 (audited)
Dividend per qualifying ordinary share	**1.20p**	1.00p	3.30p

During the period, the Company paid a final dividend in respect of the year ended 31 August 2018 of 2.30 pence per share, amounting to £1,318,000.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

6. EARNINGS PER SHARE

Reported earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

Earnings	**Six months to 28 February 2019 (unaudited) £'000**	Six months to 28 February 2018 (unaudited) £'000	Year to 31 August 2018 (audited) £'000
Earnings for the purposes of basic and diluted earnings per share being net profit for the period	**6,360**	5,124	10,473
Non-underlying items	**–**	–	(329)
Tax on non-underlying items	**–**	–	63
Total underlying profit for adjusted EPS calculation	**6,360**	5,124	10,207

Number of shares	**Six months to 28 February 2019 number '000**	Six months to 28 February 2018 number '000	Year to 31 August 2018 number '000
Weighted average number of ordinary shares for the purposes of basic earnings per share calculation	**57,222**	56,690	56,825
Effect of dilutive potential ordinary shares:			
EMI share option scheme and unapproved share option plan	**856**	1,151	1,151
Weighted average number of ordinary shares for the purposes of diluted earnings per share calculation	**58,078**	57,841	57,976

Earnings per share	**Pence**	Pence	Pence
Basic EPS	**11.1**	9.0	18.4
Diluted EPS	**11.0**	8.9	18.1
Adjusted basic EPS	**11.1**	9.0	18.0
Adjusted diluted EPS	**11.0**	8.9	17.6

At 28 February 2019, the total number of ordinary shares issued and fully paid was 58,111,639. This included 795,499 shares held by the Employee Benefit Trust ('EBT') to satisfy options vesting in future years. The operation of this Employee Benefit Trust 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 earnings per share 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 Employee Benefit Trust (890,019). It should be noted that the only right relinquished by the Trustees of the Employee Benefit Trust is the right to receive dividends. In all other respects, the shares held by the Employee Benefit Trust have full voting rights.

6. EARNINGS PER SHARE CONTINUED

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.

7. FINANCIAL INSTRUMENTS

The fair value of the Group's derivative financial instruments is calculated using the quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing model 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 contract.

IFRS 13 Fair Value Measurements requires the Group's derivative financial instruments to be disclosed at fair value and categorised in three levels according to the inputs used in the calculation of their fair value.

Financial instruments carried at fair value should be measured with reference to the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The financial instruments held by the Group that are measured at fair value all related to financial assets/(liabilities) measured using a Level 2 valuation method.

The fair value of financial assets and liabilities held by the Group are:

	28 February 2019 (unaudited) £'000	28 February 2018 (unaudited) £'000	31 August 2018 (audited) £'000
Financial assets			
Amortised cost			
Cash and cash equivalents	**26,172**	19,734	22,811
Trade and other receivables	**11,533**	10,243	11,542
Designated cash flow hedge relationships			
Derivative financial assets designated and effective as cash flow hedging instruments	**842**	258	57
	38,547	30,235	34,410
Financial liabilities			
Amortised cost			
Trade and other payables	**5,326**	8,861	6,441
	5,326	8,861	6,441

INDEPENDENT REVIEW REPORT TO FOCUSRITE PLC

CONCLUSION

We have been engaged by the company to review the condensed set of financial statements in the half-yearly report for the six months ended 28 February 2019 which comprises Condensed Consolidated Income Statement, Condensed Consolidated Statement of Other Comprehensive Income, Condensed Consolidated Statement of Financial Position, Condensed Consolidated Statements of Changes in Equity, Consolidated Statement of Cash Flow and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly report for the six months ended 28 February 2019 is not prepared, in all material respects, in accordance with the recognition and measurement requirements of International Financial Reporting Standards (IFRSs) as adopted by the EU and the AIM Rules.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) *2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

The impact of uncertainties due to the UK exiting the European Union on our review

Uncertainties related to the effects of Brexit are relevant to understanding our review of the condensed financial statements. 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. An interim review cannot be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

DIRECTORS' RESPONSIBILITIES

The half-yearly report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly report in accordance with the AIM Rules.

The annual financial statements of the group are prepared in accordance with IFRSs as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with the recognition and measurement requirements of IFRSs as adopted by the EU.

OUR RESPONSIBILITY

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly report based on our review.

THE PURPOSE OF OUR REVIEW WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

This report is made solely to the company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Michael Froom
for and on behalf of KPMG LLP
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

30 April 2019

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