

Focusrite PLC

Interim results for the period
ending 28 February 2017

May 2017



FOCUSRITE PLC | ANNUAL REPORT 2016

Making music easy to make

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Agenda

- **Introduction and Highlights**
- **Product Sectors**
- **Markets**

Tim Carroll

- **Financial Review**

Jeremy Wilson

- **Final Comments**

Tim Carroll



Tim Carroll
Chief Executive
Officer



Jeremy Wilson
Chief Financial
Officer

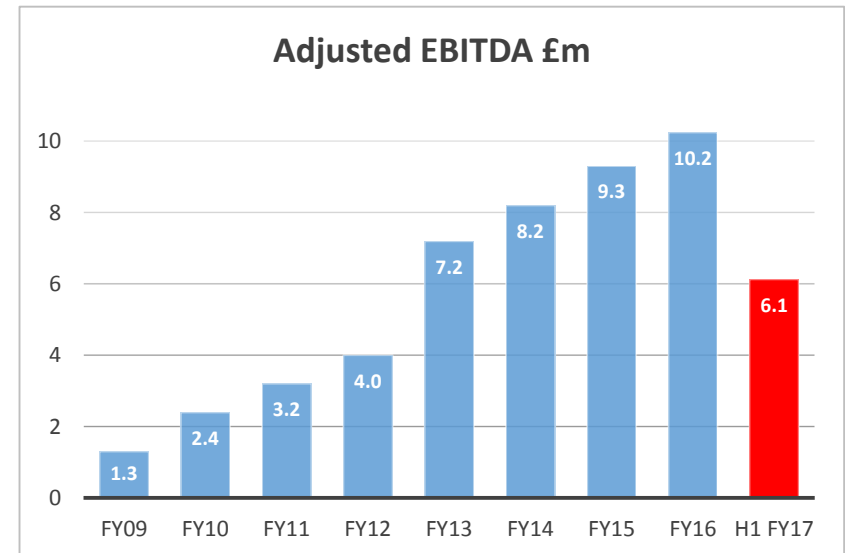
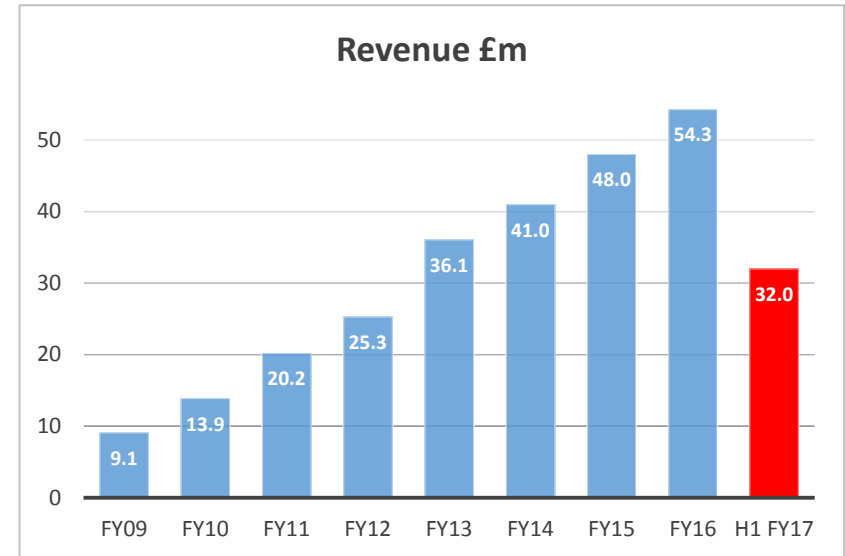
Introduction

- Global music and audio technology company supplying hardware and software solutions to musicians and sound professionals.
- Founded in 1989
- Two established brands:
 - Focusrite: audio recording equipment
 - Novation: hardware and software for creating and playing electronic music
- Global customer base: 160 territories
- Approximately 170 employees

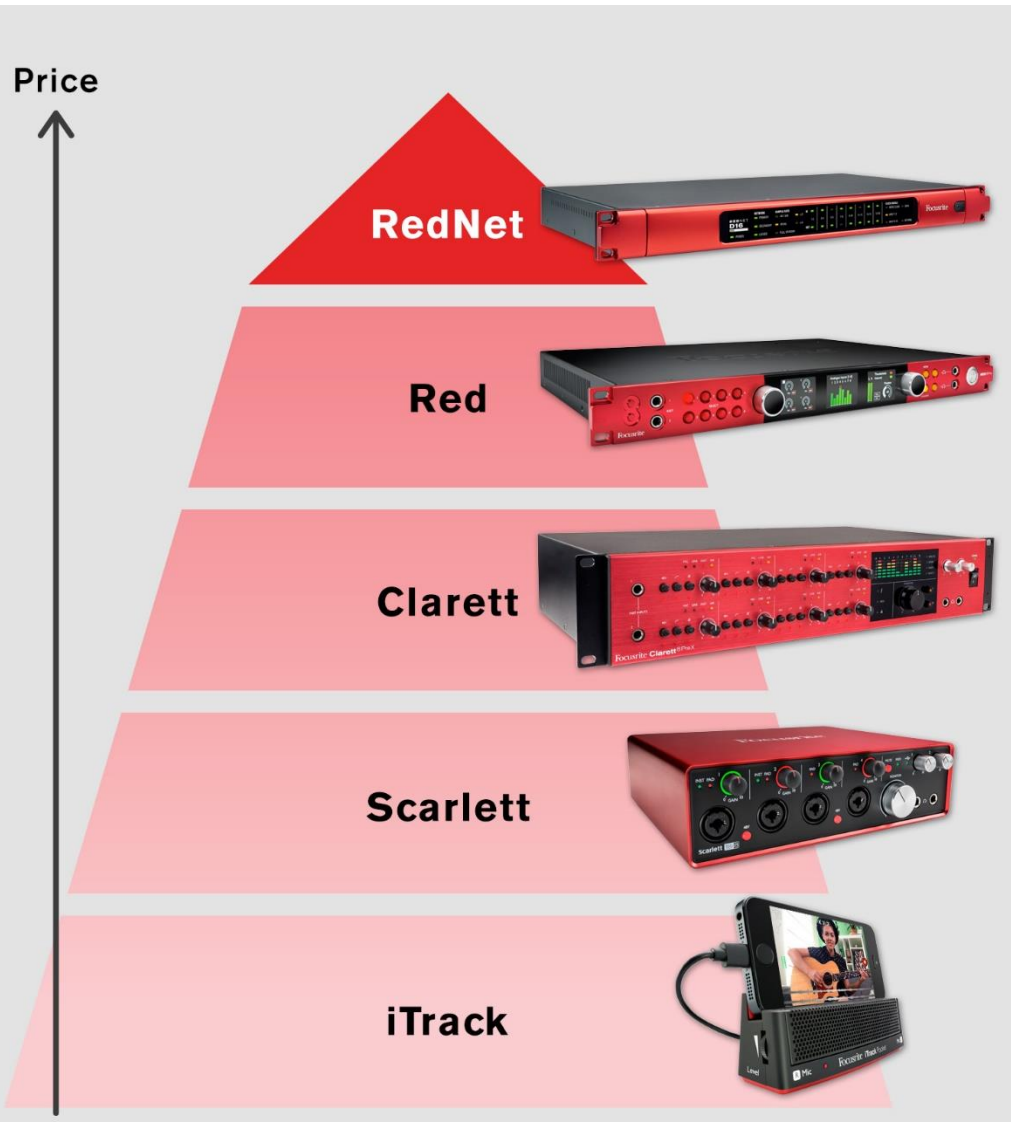


Highlights

- **Revenue up 23.7%** including continued growth in all regions.
- **Strong sales** of the second generation **Scarlett** USB audio interface range which continues to gain market share across all geographies.
- Significant strengthening of **Launchpad** demand
- **Six new products** launched, and Circuit Components update.
- Downloads of Apps have now exceeded **six million**.
- **Adjusted EBITDA up 27.2%**



Sectors: Focusrite



- **RedNet:** Enterprise, Live, Broadcast, Education. Networked Audio over IP
 - \$3,000 upwards
 - c3% market share
- **Red:** Creative Professional: Music, Post
 - \$2,500 to \$3,500
 - New range so small market share
- **Clarett:** Intermediate/ professional user.
 - \$500 to \$1,300.
 - c14% market share
- **Scarlett.** Mass market interface. Home user.
 - \$100 to \$500.
 - c49% market share, increase due to Gen 2
- **iTrack.** Mobile recording.
 - \$50 to \$250.
 - c12% market share

Sectors: Focusrite

Focusrite	HY17	HY16	FY16	Growth
	£m	£m	£m	%
Revenue	20.8	16.9	37.6	23.1%

- Scarlett 2nd Generation: Already world's best selling interface and gaining more market share since June 2016 launch.
- Launched 5 new Focusrite branded products in first half.
- RedNet: Continues to show strong growth as market becomes more aware of benefits of 'Audio over IP'. Many strategic first half wins in Post-Production, Education and Installed Sound.



Sectors: Novation

GRIDS



Grid Controllers
(Launchpad) \$100 to \$300

KEYBOARDS/Synths



Keyboard Controllers
\$80 to \$400

SOFTWARE



Freemium IOS Apps



Groove Box
(Circuit) \$330



Synths
\$400 to \$1300

- Portfolio designed for creation of Electronic Music
- Many skus require no classic music background/instrument proficiency



Sectors: Novation

Novation	HY17	HY16	FY16	Growth
	£m	£m	£m	%
Revenue	9.6	7.3	13.7	31.8%

- Strong growth year on year driven by elevated demand for Launch Grid and Keyboard Controller products.
- Registration data points to many net new customers coming from more mainstream retail channels.
- Apps. Launchpad & Blocs Wave App downloads now at 6m, with 100k new downloads per month.
 - Freemium models with paid for add-ons
 - Becoming a consistent and growing revenue generator for the Group.



Sectors: UK Distribution

Distribution	HY17	HY16	FY16	Growth
	£m	£m	£m	%
Revenue	1.6	1.6	3.1	-5.3%

- Portfolio focused on complementary products in the traditional recording value chain
- KRK monitors are 80% of this distribution revenue.
- sE mics: Range of studio quality microphones suited for vocal and instrument recording
- Invaluable market feedback, insight and knowledge



Markets

Segmental Revenue	HY17	HY16	FY16	Growth
	£m	£m	£m	%
USA	13.2	9.1	21.4	46.1%
Europe, Middle East and Africa	13.0	12.1	22.6	7.4%
Rest of World	5.8	4.7	10.3	22.5%
Consolidated revenue	32.0	25.9	54.3	23.7%

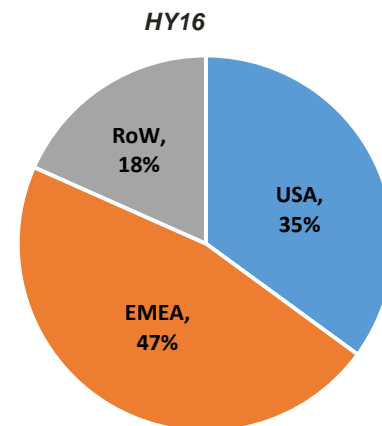
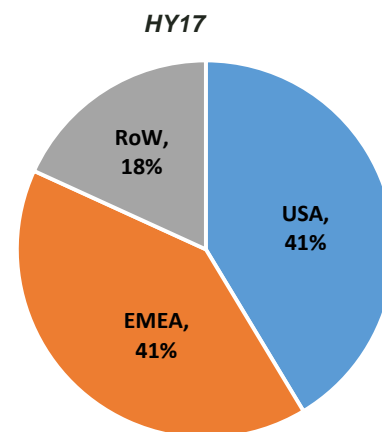
- USA: up 46.1% to £13.2m
 - Constant FX growth 25%.
 - Supported by consumer demand.

- EMEA: up 7.4% to £13.0m
 - Constant FX growth 5%
 - UK up 16%, driven by Amazon (now 13% of EMEA region)
 - Germany declined.

- Rest of World (mainly Asia): up 22.5% to £5.8m
 - Constant FX growth 8%
 - China growing well.
 - Japan and South Korea declined.

- eCommerce site embryonic but improving conversion through all sales channels

Regional split of revenue



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Chief Executive
Officer



Jeremy Wilson
Chief Financial
Officer

Financial highlights for the period ended 28 February 2017

- Strong organic growth across all key financial metrics and KPIs
- Group revenue up by 23.7% to £32.0 million (HY16: £25.9 million)
- Adjusted EBITDA¹ up by 27.2% to £6.1 million (HY16: £4.8 million)
- Operating profit up by 44.9% to £4.6 million (HY16: £3.2 million)
 - HY16 had £0.5 million non-underlying cost
- Profit before tax up by 89.1% to £4.6 million (HY16: £2.4 million)
 - HY16 also had £0.8 million hedging fair value cost
- Basic earnings per share 7.3p, up by 82.5% (HY16: 4.0p)
- Adjusted² diluted earnings per share 7.0p, up by 52.2% (HY16: 4.6p)
- Net cash of £9.4 million (HY16: £4.0 million)
- Interim dividend of 0.75p, up 15.4% from 0.65p in HY16

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

² Adjusted for non-underlying items which were £nil in HY17 and £0.5 million legal costs in HY16.

Income statement

£ million	HY17	HY16	Growth
Revenue	32.0	25.9	23.7%
Cost of sales	-19.1	-15.6	
Gross profit	12.9	10.3	24.7%
Operating expenses before non-underlying items	-8.3	-6.6	25.3%
Operating profit before non-underlying items	4.6	3.7	23.8%
Non-underlying items	0.0	-0.5	
Operating profit	4.6	3.2	44.9%
Net financing charges	0.0	-0.8	
Profit before tax	4.6	2.4	89.1%
Tax	-0.6	-0.3	
Profit after tax	4.0	2.1	89.1%
Adjusted operating profit before non-underlying items	4.6	3.7	23.8%
Add back depreciation and amortisation	1.5	1.1	
Adjusted EBITDA	6.1	4.8	27.2%

- Revenue up 23.7%.
 - Constant FX growth 12%.
 - All major territories increasing.
- Gross margin 40.1% (HY16, 39.8%).
- Adjusted EBITDA up 27.2% to £6.1m.
- No non-underlying costs
 - HY16 related to legal cases now settled.
- Net financing charges zero
 - HY16 related to fair value of FX hedge contracts. Now use hedge accounting so fair value of FX hedges shown in reserves.
- Tax 12.0% of profit before tax.
 - Tax benefits on R&D and vesting share options.

Balance Sheet

£ million	HY17	HY16
Intangible assets	5.2	4.4
Tangible assets	1.5	1.4
Total non current assets	6.7	5.8
Inventories	10.1	10.7
Debtors and other investments	10.3	9.8
Cash	9.4	4.0
Total current assets	29.8	24.5
Total assets	36.5	30.3
Capital and reserves		
Share capital and other reserves	1.5	1.5
P+L account	27.1	18.7
Total Equity	28.6	20.2
Current liabilities	7.4	9.3
Deferred tax	0.5	0.8
Total liabilities	7.9	10.1
Total equity and liabilities	36.5	30.3

- Intangible fixed assets include £4.5m of capitalised R&D and £0.7m of goodwill & other intangibles
 - R&D spend is >6% of revenue.
 - Capitalise c75% and write off over 3 years.
- Stock turn of 3.6 times in HY17 (FY16, 2.9 times).
 - Concerted focus to manage better.
 - Helped by growing demand.
- Debtor days 51 days, down from 59 days at FY16.
 - Customers buying 2nd gen Scarlett at end of FY16 paying in September and October.
- Current liabilities back down, to £7.4m
 - Lower purchases of stock.
- Deferred tax due largely to the capitalised R&D.

Cash flow

£ million	HY17	HY16
Adjusted EBITDA	6.1	4.8
Movement in wc (ex non-underlying items)	0.1	-4.1
Operating cash flow (ex non-underlying items)	6.2	0.7
Interest (paid)	0.0	-0.1
Tax (paid)	-0.1	-0.7
Foreign exchange movement	0.1	0.2
Net cash from operating activities (ex non-underlying items)	6.2	0.1
Investing	-2.0	-1.7
Underlying free cash flow	4.2	-1.6
Proceeds from share issue	0.3	0.1
Dividends	-0.7	-0.6
Non-underlying items	0.0	-0.1
Net inc/dec in cash	3.8	-2.2
Opening cash	5.6	6.2
Closing cash	9.4	4.0

- Working capital reduction.
 - Lower stock and continued careful management of debtors.

- Investing £2.0m, (HY16, £1.7m)
 - Capitalised R&D £1.5m (HY16, £1.4m).
 - Other capital expenditure (mainly tooling) £0.5m (FY15, £0.3m).

- Non-underlying items:
 - HY17 none.
 - HY16 payment of legal costs.

- Closing cash £9.4m, up from £5.6m in Aug '16
 - Also HSBC revolving credit facility of £10m.

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Officer

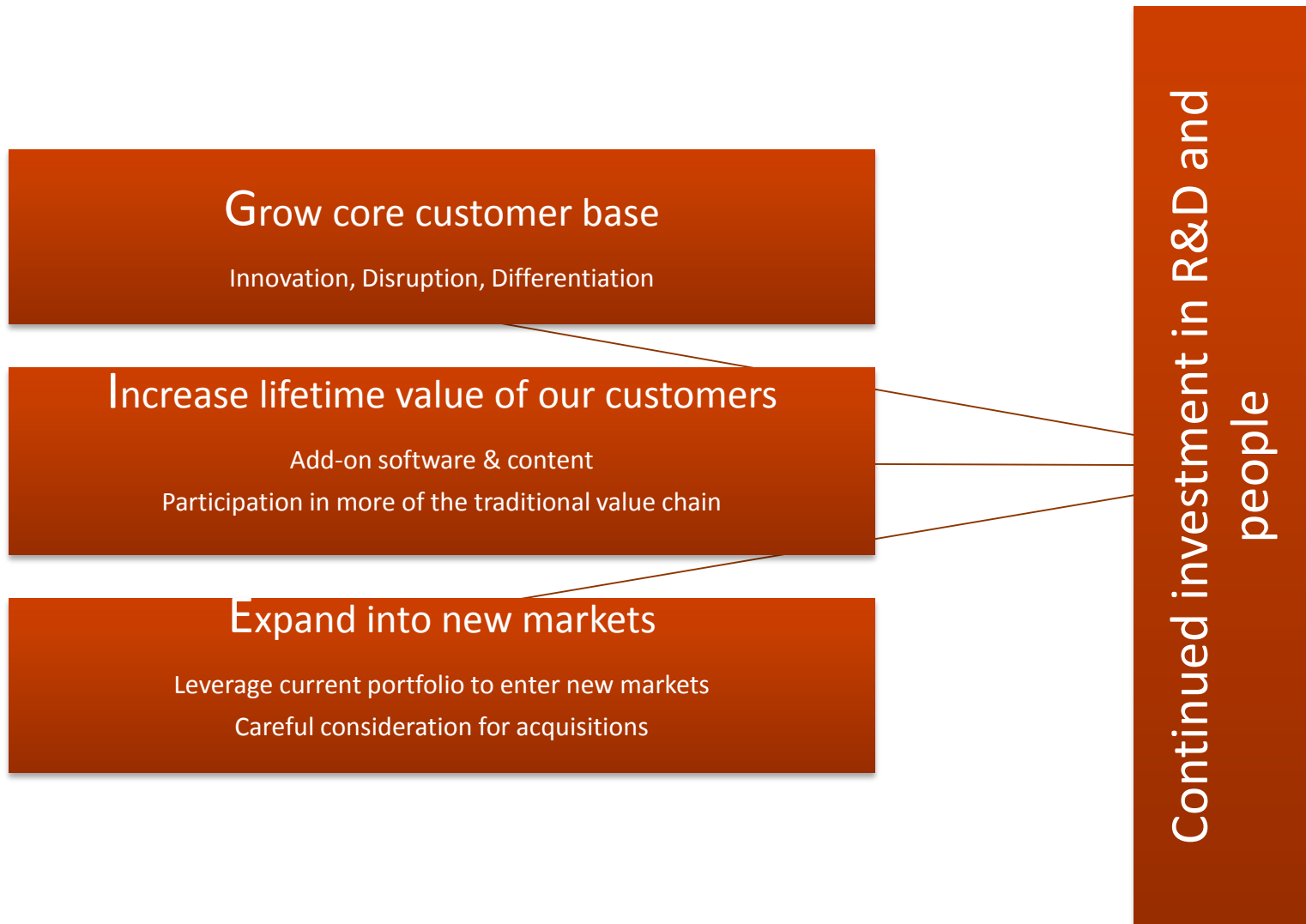


Jeremy Wilson
Chief Financial
Officer

Summary and current trading

- Revenue up 23.7% with growth in all major territories.
- R&D continues to be our key ongoing investment: 6 further new products launched.
- Significant increase in demand for Novation products, especially Launchpad.
- Adjusted EBITDA up by 27.2% to £6.1 million (HY16: £4.8 million).
- Stronger management focus has driven improved cash.
- Interim dividend of 0.75p, up 15.4% on 0.65p in HY16.
- Since the half year end, revenue and cash have both continued to grow strongly.

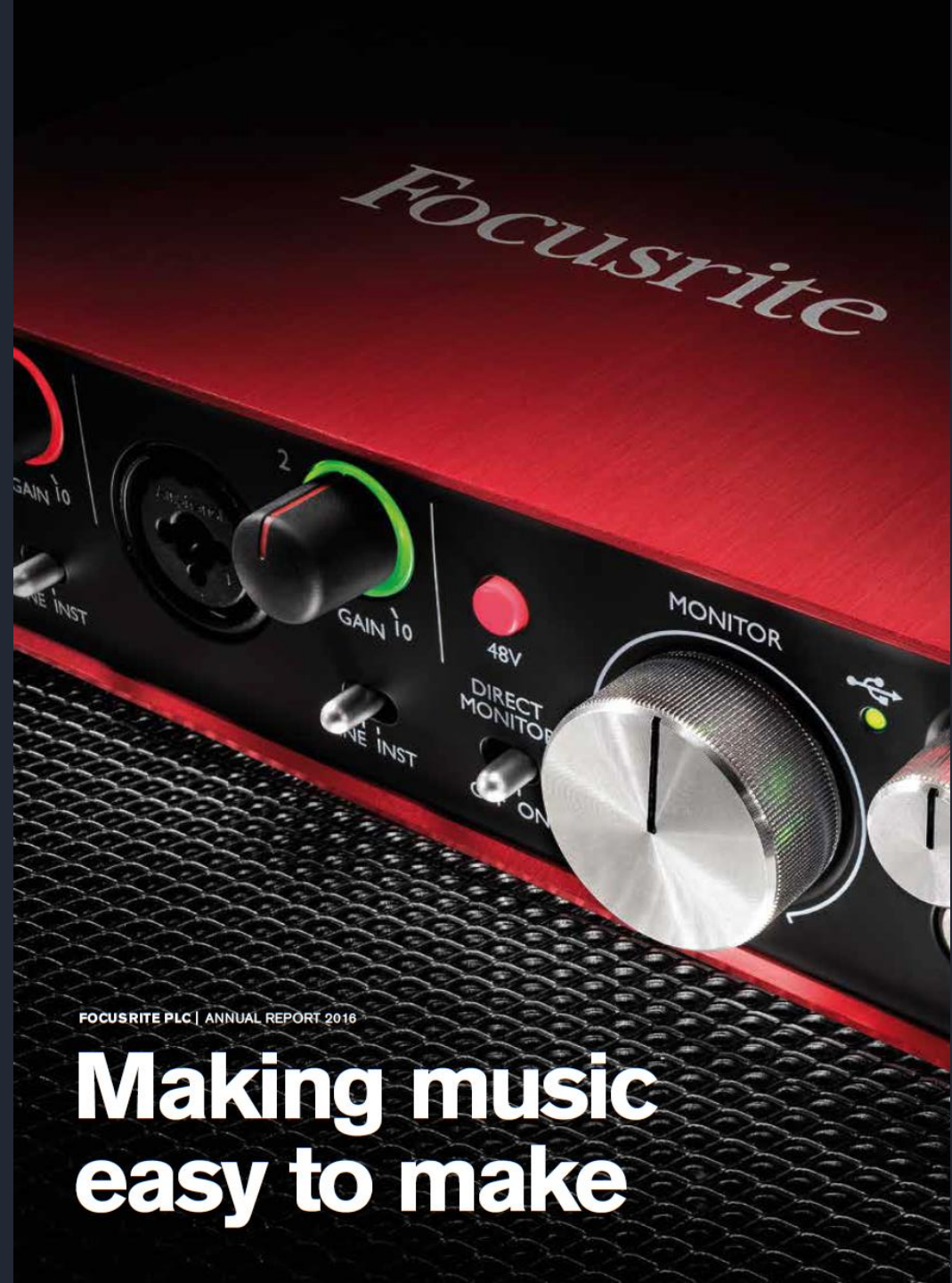
Focusrite Growth Strategy



Focusrite plc

Additional information

May 2017



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Making music easy to make

Products launched FY17 to date

6 products launched:

- Red 8 Pre
- Clarett Octopre
- Scarlett Octopre
- Scarlett Octopre Dynamic
- iTrack One Pre
- Launch Control XL MK2



Software:

- Circuit Components update



Experienced PLC board

Phil Dudderidge
Executive Chairman & Founder



- Distinguished career in the professional audio industry; live mixer for Led Zeppelin
- Set up RSD in 1971 building bespoke PA systems with custom-built mixing consoles
- Co-founded Soundcraft Electronics in 1973, a company specialising in live audio mixing consoles (sold to Harman International in 1988)
- Acquired the assets of Focusrite Ltd in 1989; created new business, built international distribution, appointed successor CEO 2012

Tim Carroll
Chief Executive Officer



- CEO of Focusrite since January 2017
- Previously VP of Avid Technology responsible for product development, commercialisation and delivery.
- Professional musician by background, having recorded and toured for nearly twenty years as a keyboard player, before joining Avid in 1997.

Jeremy Wilson
Chief Financial Officer



- CFO of Focusrite since September 2014
- Previously CFO at Regeneris Plc and Atex Group Ltd
- Held several senior finance roles at DHL Express (UK) Ltd and Electrocomponents plc
- Qualified as a Chartered Accountant at KPMG

David Bezem
Independent Non-executive Director and Chairman of the Remuneration and Nomination Committees



- Currently NED and Chairman of the Remuneration Committee at Harvey Nash Group Plc
- More than 25 years experience as an investment banker advising UK public companies
- Qualified as a Chartered Accountant with Arthur Andersen & Co

Paul Dean
Independent Non-executive Director and Chairman of the Audit Committee



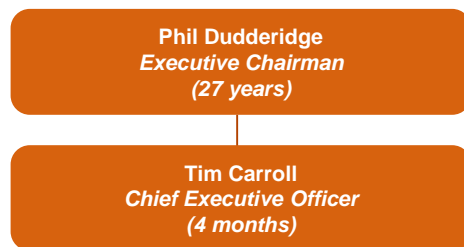
- Currently NED and Chair of the Audit Committee at Polypipe Group Plc, Porvair Plc and Wincanton Plc. Also Senior Independent Director at Polypipe Group Plc and Porvair Plc
- Previously Group FD at Ultra Electronics Holdings Plc and Foseco Plc and held a variety of senior finance roles at Burmah Castrol Plc
- Qualified Chartered Management Accountant

...Supported by a young and dynamic management team

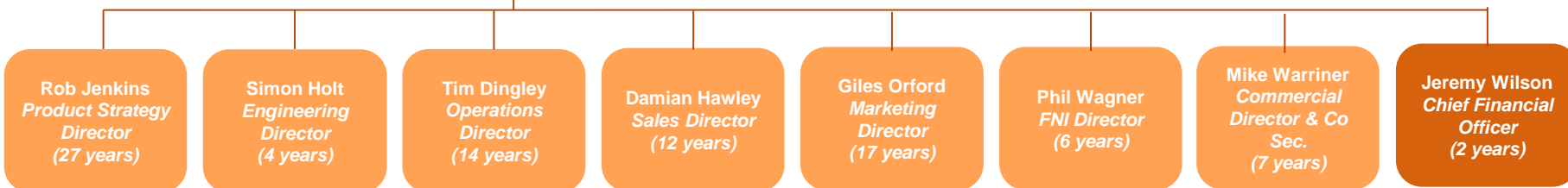
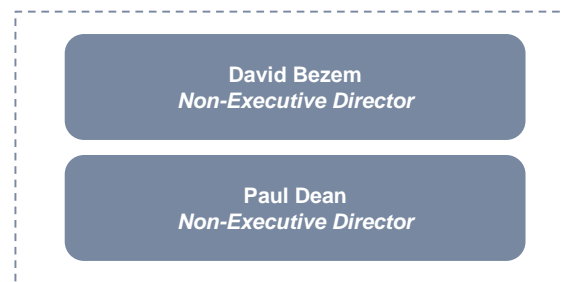
Management and Corporate Structure

Highly experienced management team with 12 years* of service on average

- PLC Board executives
- PLC Board NEDs
- Management board



Non-executive directors



* Based on ten members of the executive team

**Making
Music Easy to
Make**