

Focusrite Plc

Results for the period ending
28 February 2019

April 2019

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Agenda

Introduction and Highlights

Brand Alignment

Product Sectors

Financial Review

Growth Strategy

Conclusions



Tim Carroll
Chief Executive
Officer



Jeremy Wilson
Chief Financial
Officer

Introduction

Focusrite plc is a global music and audio products group that develops and markets proprietary hardware and software products. Used by audio professionals and amateur musicians alike, its solutions facilitate the high-quality production of recorded and live sound.

Founded in 1989

Four brands:

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

Global customer base: 160 territories

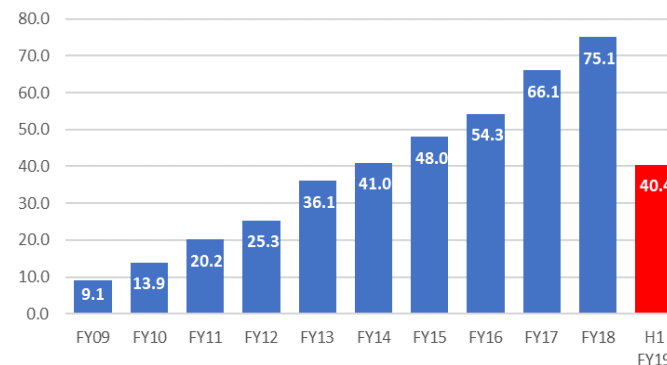
Approximately 230 employees



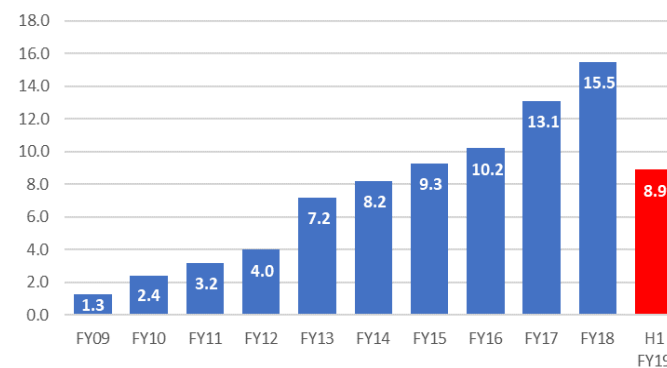
Highlights for the period ended 28 February 2019

- Revenue up 4.1% (0.5% at constant exchange rates¹)
- EBITDA² up 11.4% to £8.9 million
- Cash up from £22.8 million at FY18 to £26.2 million at HY19
- Interim dividend of 1.2 pence, an increase of 20%
- Two new products and several software upgrades this period
- Downloads of apps now over 10.5 million

Revenue £m



EBITDA £m



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 earnings adjusted for interest, taxation, depreciation and amortisation

Brand alignment

New Creator

Market size: \$200m-300m

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

Aligned brands: Ampify

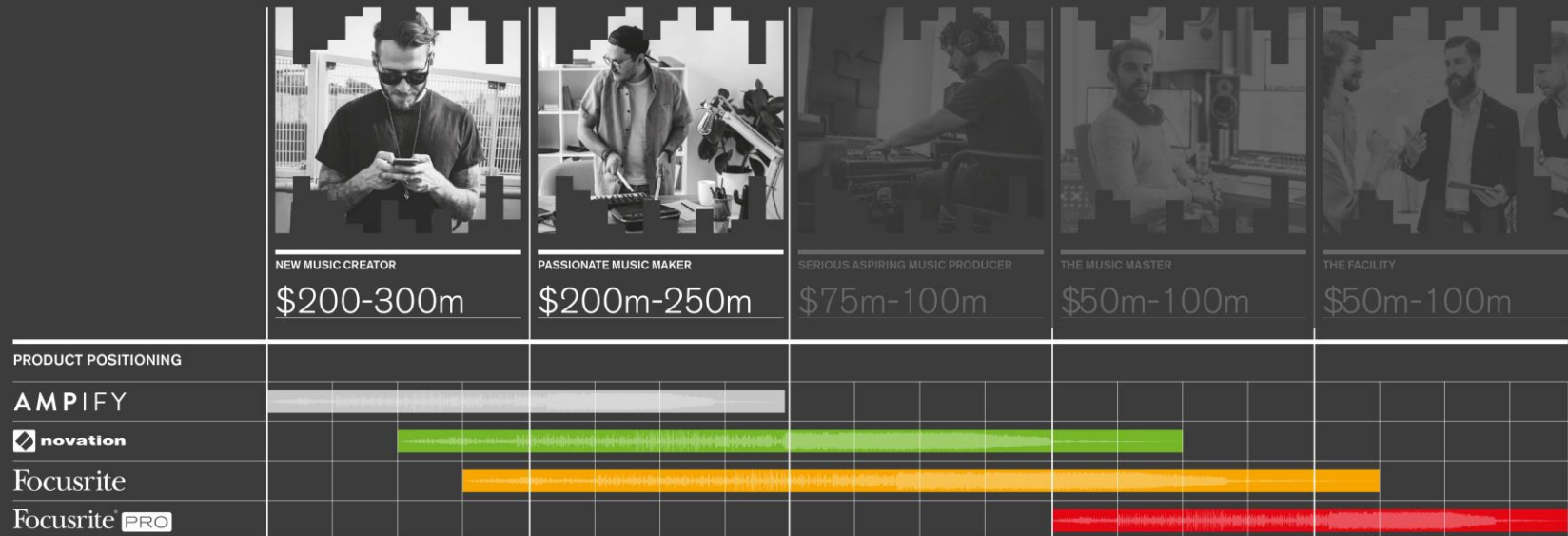
Gateway brands: Novation, Focusrite

Passionate Maker

Market size: \$200m-250m

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

Aligned brands: Novation, Focusrite, Ampify



Brand alignment

Serious Aspiring Producer

Market size: \$75m-100m

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

Aligned brands: Novation, Focusrite

The Master/Facility

Market size: \$100m-200m

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

Aligned brands: Focusrite, Focusrite Pro

Gateway brands: Novation



Product sectors: Focusrite

- 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	HY19	HY18	FY18
	£m	£m	£m
Revenue	26.3	23.4	47.4

- Scarlett and Clarett both grew in absolute terms, leading to segment growth of 12.3%.
- Scarlett continues to sell strongly (sales up 12%) and remains the number one audio interface in the world.
- Clarett continues to gain market share following the launch of the USB range in FY18.



Product sectors: Focusrite

Focusrite Pro	HY19	HY18	FY18
	£m	£m	£m
Revenue	2.6	2.3	4.8

- RedNet and Red both grew in absolute terms.
- RedNet was the fastest growing range in the Group, leading Focusrite Pro to revenue growth of 14.8%.

“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

○ 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	HY19	HY18	FY18
	£m	£m	£m
Revenue	9.8	11.4	20.1

- Launchkey range up 24%.
- Launchpad, the leading product range for Novation, now in its fourth year, leading to a decline of 13.9% across the segment.
- Healthy pipeline: several new products planned over the next 18 months.
- Newly-launched SL Mark III 61 and 49 won awards and accolades from various industry media outlets.
- Ampify. London innovation software division.
 - Music creation tools
 - Now over 10.5 million downloads cumulatively
 - Increasing at 120k per month
 - Crucial part of business strategy going forward: grow the Group's software capability

“The SL Mark III does indeed change the game for controllers and sets a new benchmark for which future controllers will be judged.”

Loopop



Product sectors: Distribution

Distribution	HY19	HY18	FY18
	£m	£m	£m
Revenue	1.7	1.7	2.9

- Add-on products within music-making industry but UK only and small overall.
- KRK monitors and sE microphones.
- Both are 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 period ended 28 February 2019

- Group revenue up by 4.1% to £40.4 million (HY18: £38.8 million)
- EBITDA 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)
- Diluted earnings per share 11.0p, up by 23.6% (HY18: 8.9p)
- Net cash of £26.2 million (FY18: £22.8 million)
- Interim dividend of 1.2 pence, up 20% on prior year

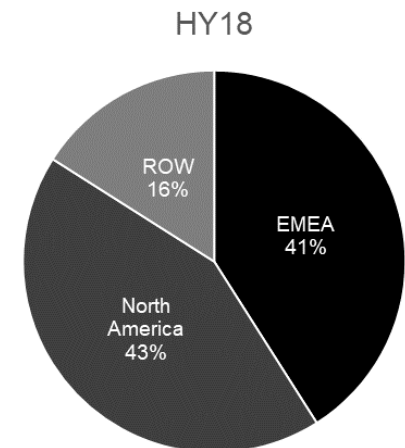
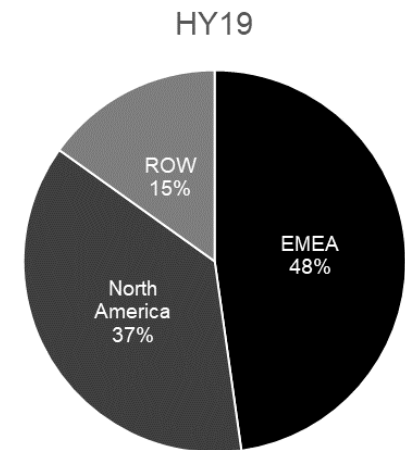
HY19: Regional performance

Segmental Revenue	HY19	HY18	FY18
	£m	£m	£m
Europe, Middle East and Africa	19.3	16.0	29.7
North America	15.0	16.8	32.7
Rest of World	6.1	6.0	12.7
Consolidated revenue	40.4	38.8	75.1

- EMEA: up 20.7% to £19.3m (constant currency growth 18%)
 - Growth across most countries
 - Pronounced growth in Focusrite products
 - Some additional orders due to Brexit uncertainty

- North America: down 11.2% to £15.0m (constant currency decline 16%)
 - Demand weaker across the ranges, exacerbated by the trade war
 - Focusrite: import tariffs introduced. We raised prices. Demand largely maintained
 - Novation: import tariffs introduced. We raised prices. Demand hit
 - Higher prices led to gross profit similar to the record level achieved in HY18 despite lower demand

- Rest of World: up 3.0% to £6.1m (constant currency decline 1%)
 - Strong growth in Asia despite regional impact of trade war with US
 - South America: work continues to strengthen the foundations



Income Statement

	HY19	HY18	FY18
	£m	£m	£m
Revenue	40.4	38.8	75.1
Cost of sales	(22.5)	(22.6)	(43.4)
Gross profit	17.9	16.2	31.7
Operating expenses before non-underlying items	(10.6)	(10.0)	(20.1)
Operating profit before non-underlying items	7.3	6.2	11.6
Non-underlying items	-	-	0.3
Operating profit	7.3	6.2	11.9
Net financing charges	(0.1)	(0.4)	(0.2)
Profit before tax	7.2	5.8	11.7
Tax	(0.8)	(0.7)	(1.2)
Profit after tax	6.4	5.1	10.5
Operating profit before non-underlying items	7.3	6.2	11.6
Add back depreciation and amortisation	1.6	1.8	3.9
EBITDA	8.9	8.0	15.5

- Revenue up 4.1%
 - Constant currency growth 0.5%
 - Record comparative from HY18
 - Macroeconomic factors

- Gross margin 44.3% (HY18: 41.7%)
 - Price increase in US
 - Gross margin c43.3% excluding price increase
 - Product mix benefit of Focusrite Pro
 - Focus on margin management

- EBITDA up 11.4% to £8.9m (HY18: £8.0m)

- Tax 11.0% of profit before tax
 - R&D benefit continues to help

Balance Sheet

	HY19	HY18	FY18
	£m	£m	£m
Intangible assets	6.7	5.2	6.0
Tangible assets	1.2	1.4	1.3
Total non current assets	7.9	6.6	7.3
Inventories	12.3	10.9	11.4
Debtors and other investments	13.1	11.1	13.4
Cash	26.2	19.7	22.8
Total current assets	51.6	41.7	47.6
Total assets	59.5	48.3	54.9
Capital and reserves			
Share capital and other reserves	2.4	1.8	1.7
Retained earnings	46.9	36.5	41.7
Total Equity	49.3	38.3	43.4
Current liabilities	9.4	9.4	11.1
Non current liabilities	0.8	0.6	0.4
Total liabilities	10.2	10.0	11.5
Total equity and liabilities	59.5	48.3	54.9

- Intangible fixed assets include £5.4m of capitalised R&D and £1.3m of goodwill & other intangibles
 - R&D expenditure 6.5% of revenue
 - Typically capitalise c70% and amortise over 3 years
- Debtor days 49 days, down from 51 days at FY18
 - Getting customers to pay on time.
 - 96% within terms.
- Current liabilities down by £1.7m to £9.4m (FY18: £11.1m)
 - Greater purchases of stock closer to FY18 year end compared with HY19.
 - No change in supplier payment terms or our aim to pay suppliers according to their terms.

Cash flow

	HY19	HY18	FY18
	£m	£m	£m
EBITDA	8.9	8.0	15.5
Movement in working capital	(1.8)	1.1	(0.2)
Operating cash flow	7.1	9.1	15.3
Interest received/(paid)	0.1	0.0	(0.1)
Tax paid	(0.1)	(0.3)	(0.5)
Net cash from operating activities	7.1	8.8	14.7
Investing	(2.2)	(2.0)	(4.5)
Free cash flow	4.9	6.8	10.2
Proceeds from share issue	0.0	0.3	0.3
Dividends	(1.3)	(1.1)	(1.7)
Net change in cash	3.6	6.0	8.8
FX movement	(0.2)	(0.5)	(0.2)
Opening cash	22.8	14.2	14.2
Closing cash	26.2	19.7	22.8

- Working capital increase (cash outflow)
 - Working capital 19.8% of revenue (compared to 16.2% last year)
 - Lower creditors

- Investing £2.2m, (HY18: £2.0m)
 - Capitalised R&D £1.8m (HY18: £1.4m)
 - Other capital expenditure £0.4m (HY18, £0.6m)

- Free cash flow 12% of revenue
 - Long term average c10%

- Closing cash £26.2m, up from £22.8m at FY18
 - Also HSBC revolving credit facility of £10m

Focusrite Growth Strategy



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 of 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 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

"Playing with Peak's distortion and gain stages is a world of discovery in itself"

Paul Hartnoll - Orbital



Expand into new markets

- Bring down the barriers to creativity in new communities
- Introduce our technology and innovations to new audiences for whom sound and creativity matter

Latin America initiatives

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



Lifetime value for our Customers

- Lead the music industry in putting the needs of the music-maker 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

- Revenue up 4.1% to £40.4 million (HY18: £38.8 million)
 - Focusrite strength continues
 - Novation declined, but pipeline now stronger
- Regionally, EMEA strong, but US affected by the trade war
 - Group remains mindful of macroeconomic factors - strategies in place to respond to future developments
- EBITDA up by 11.4% to £8.9 million (HY18: £8.0 million)
- Strong cash generation: Cash up from £22.8 million at FY18 to £26.2 million
- Dividend of 1.2 pence, up 20% on prior year
- Several launches planned during the rest of 2019
- Look forward with continued confidence

Focusrite Plc

**Enriching Lives Through
Music**