

# Focusrite Plc

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Results for the period ending  
**28 February 2018**

**April 2018**



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## Agenda

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Introduction and Highlights

Product Sectors

Markets

Financial Review

Growth Strategy

Conclusions



Tim Carroll  
Chief Executive  
Officer



Jeremy Wilson  
Chief Financial  
Officer



## Introduction

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

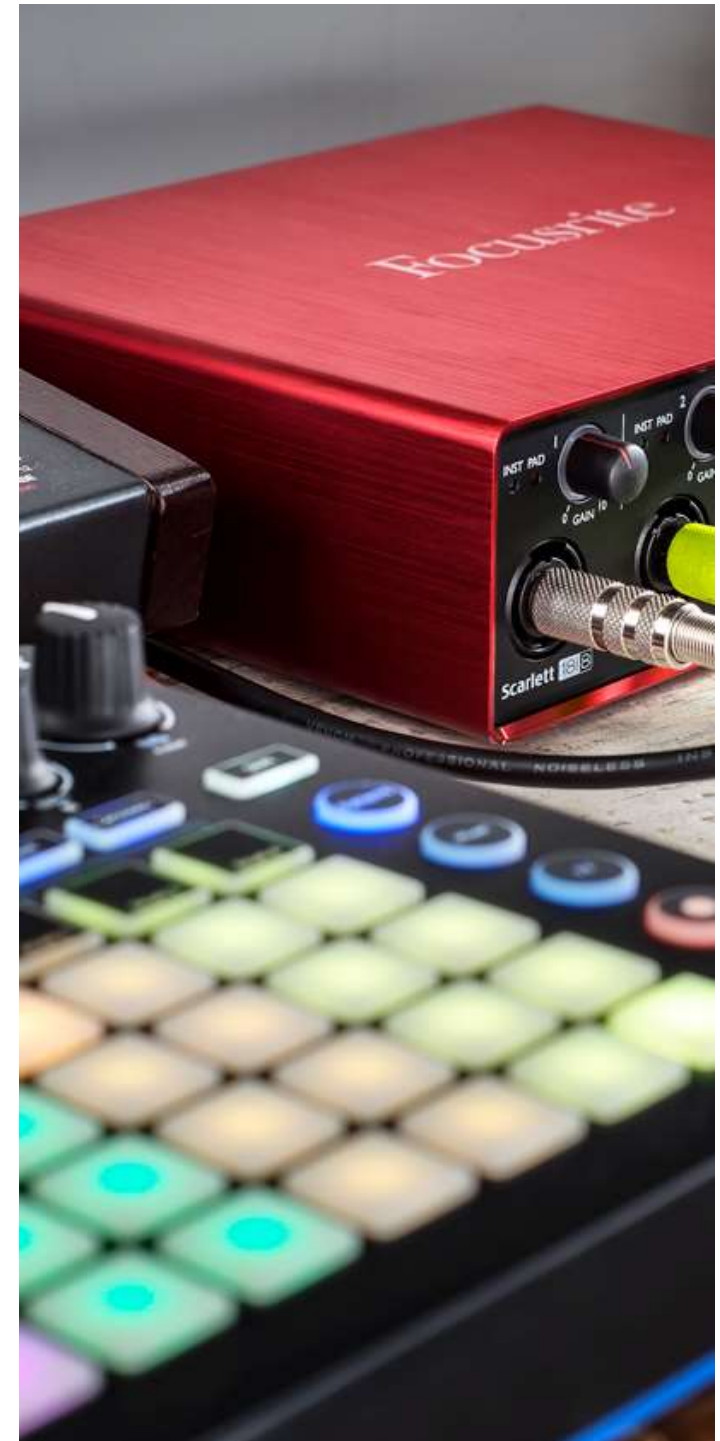
Founded in 1989

Four established brands:

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

Global customer base: 160 territories

Approximately 200 employees



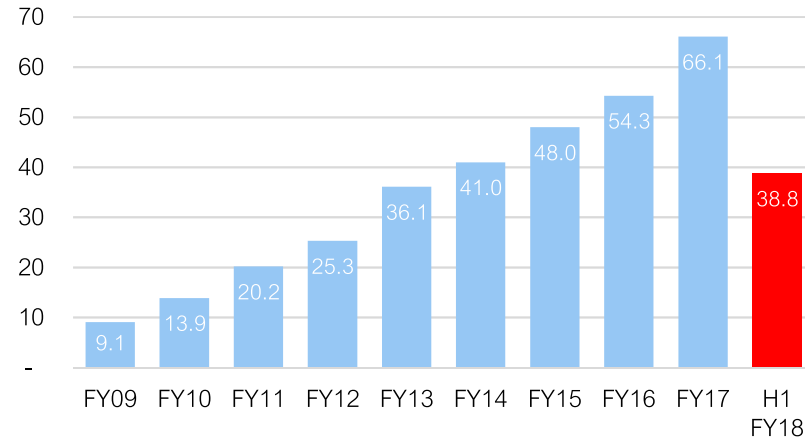


## Highlights for the six months ended 28 February 2018

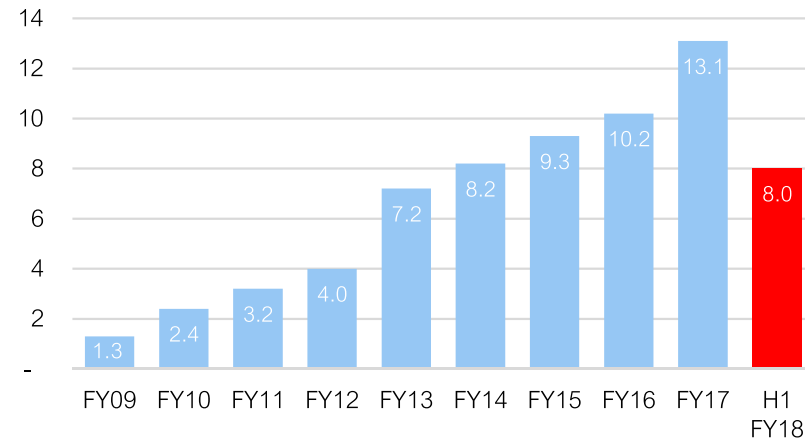
- Revenue up 21.2% (26% at constant exchange rates)
- Growth across both major segments and in all regions. Strong Christmas holiday boost.
- Five new products and several software upgrades this period
- Significant strengthening of Launchpad demand leading to Novation growing by 19%
- Downloads of Apps now over 8.5 million
- EBITDA<sup>1</sup> up 30.0%
- Cash up from £14.2m at FY17 million to £19.7 million at HY18
- Interim dividend up 33.3% to 1.0 pence
- Queen's Award for Innovation April 2018

<sup>1</sup> Comprising earnings adjusted for interest, taxation, depreciation and amortisation

Revenue £m



EBITDA £m





# Focusrite



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



**Red:** Creative Professional, Music, Post  
\$1,800 to \$3,500



**Clarett:** Intermediate / Professional user  
\$400 to \$1,300



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



# Focusrite

Focusrite	HY18	HY17	FY17	Growth
	£m	£m	£m	%
Revenue	<b>25.7</b>	20.8	44.6	23.2

- Scarlett, Clarett and Rednet all grew in absolute terms.
- Scarlett continues to sell strongly, and remains the number one audio interface in the world.
- Clarett sales up 28%, driven by launch of our USB range this half year.
- Newly formed Focusrite Pro team getting strategic sales wins in previously untargeted markets such as post-production and broadcast
- Launched 5 new Focusrite branded products.





## Novation

Portfolio designed for creation of Electronic Music

**Controllers:** Physical interfaces to control music creation software

**Standalone:** Function on their own as sound generating devices

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



### CONTROLLERS

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

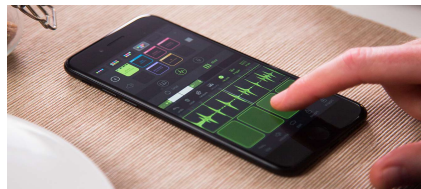
Keyboard controllers: **Launchkey - \$80 to \$400.**



### STANDALONE

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

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



### SOFTWARE

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





## Novation

Novation	HY18	HY17	FY17	Growth
	£m	£m	£m	%
Revenue	11.4	9.6	18.9	18.9

- Launchpad and Synthesisers grew strongly leading to business segment growth of 18.9%.
- Launchpad range up 26%.
  - Wider market acceptance by increasingly mainstream audiences.
  - Christmas holiday strong and could signal changing seasonality.
- Synthesisers up 90% due to new flagship, PEAK.
- Ampify. New name for London innovation software division.
  - Now over 8.5 million downloads cumulatively
  - Increasing at approximately 200k per month
  - Has become a material contributor for acquiring new hardware customers
  - Crucial part of business strategy going forward.

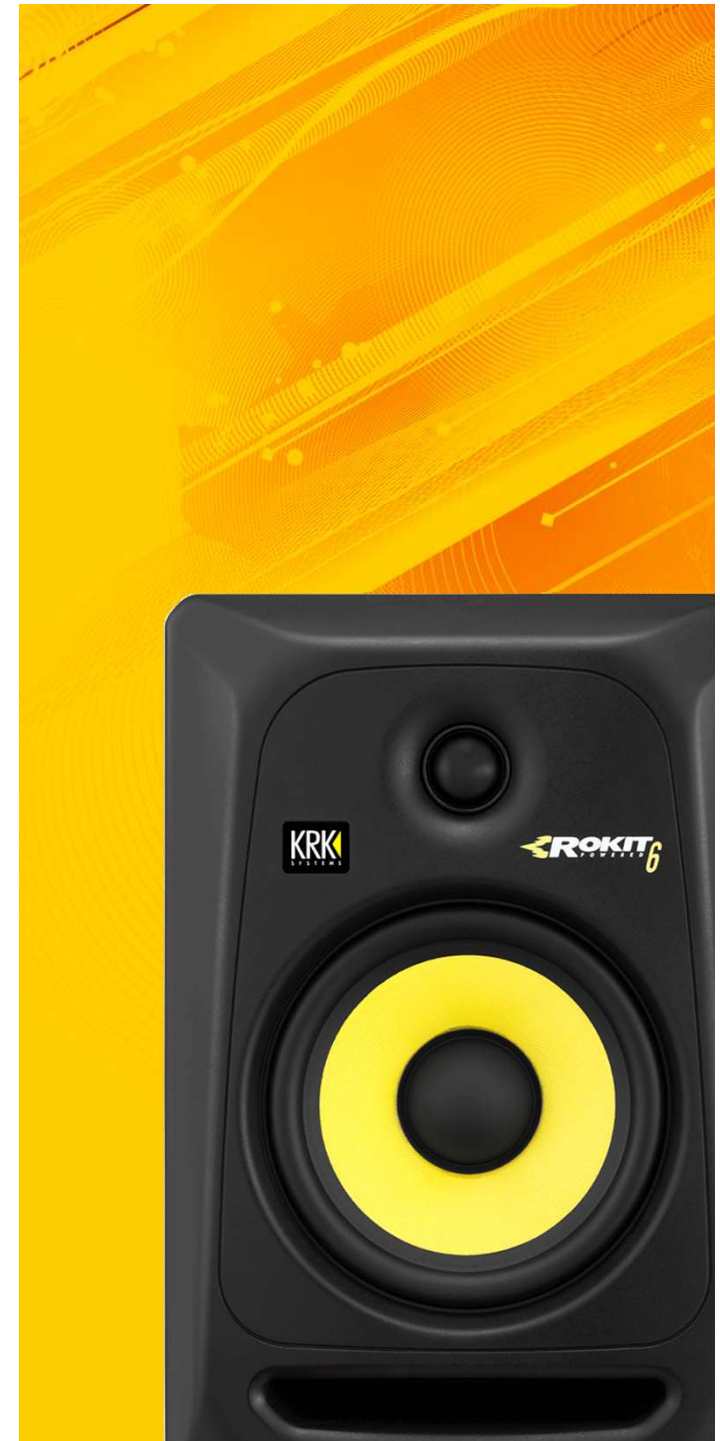




## UK Distribution

Distribution	HY18	HY17	FY17	Growth
	£m	£m	£m	%
Revenue	1.7	1.6	2.6	9.4

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





## Financial highlights for the six months ended 28 February 2018

- Group revenue up by 21.2% to £38.8 million (HY17: £32.0 million)
- EBITDA<sup>1</sup> up by 30.0% to £8.0 million (HY17: £6.1 million)
- Operating profit up by 36.3% to £6.2 million (HY17: £4.6 million)
- Profit before tax up by 26.8% to £5.8 million (HY17: £4.6 million)
- Basic earnings per share 9.0p, up by 23.3% (HY17: 7.3p)
- Diluted earnings per share 8.9p, up by 27.1% (HY17: 7.0p)
- Free cash flow<sup>2</sup> up by 49.7% to £6.4 million (HY17: £4.3 million)
- Net cash of £19.7 million (HY17: £9.4 million)
- Interim dividend of 1.0 pence, up from 0.75 pence in HY17

<sup>1</sup> Comprising earnings adjusted for interest, taxation, depreciation and amortisation

<sup>2</sup> Comprising net cash inflow from operating activities less net cash used in investing activities

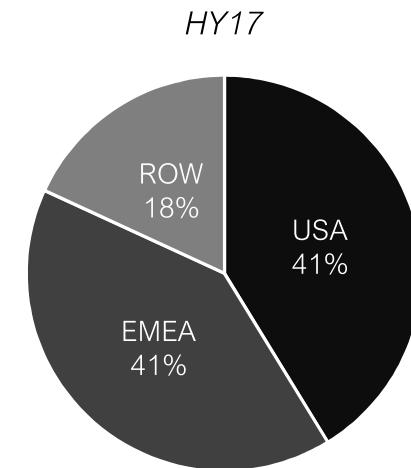
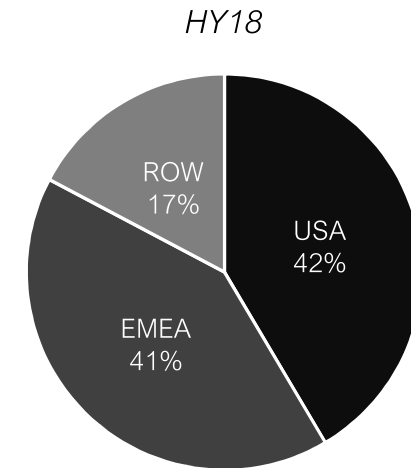


## 2018: Regional performance

Segmental Revenue	HY18	HY17	FY17	Growth
	£m	£m	£m	%
USA	16.1	13.2	28.0	21.7
Europe, Middle East and Africa	16.0	13.0	25.2	23.5
Rest of World	6.7	5.8	12.9	15.2
Consolidated revenue	38.8	32.0	66.1	21.2

- USA: up 21.7% to £16.1m
  - Constant FX growth 34%
  - Continued gains in interfaces and growth of Launch range
- EMEA: up 23.5% to £16.0m
  - Constant FX growth 19%
  - UK , Germany and mainland Europe all growing.
- Rest of World (mainly Asia): up 15.2% to £6.7m
  - Constant FX growth 26%
  - Particular growth in Asia.
  - New regional sales manager in Latin America.
- eCommerce site over 1% of revenue
  - Now includes Spanish, Korean and Japanese languages.

## Regional split of revenue



Focusrite Plc



## Income Statement

	HY18	HY17	FY17	Growth
	£ million	£ million	£ million	%
<b>Revenue</b>	<b>38.8</b>	32.0	66.1	21.2
Cost of sales	-22.6	-19.1	-39.7	
<b>Gross profit</b>	<b>16.2</b>	12.9	26.4	26.0
Operating expenses	-10.0	-8.3	-16.9	
<b>Operating profit</b>	<b>6.2</b>	4.6	9.5	36.3
Net financing charges	-0.4	0.0	0.0	
<b>Profit before tax</b>	<b>5.8</b>	4.6	9.5	26.8
Tax	-0.7	-0.6	-0.9	
<b>Profit after tax</b>	<b>5.1</b>	4.0	8.6	26.6
<b>Operating profit</b>	<b>6.2</b>	4.6	9.5	36.3
Add back depreciation and amortisation	1.8	1.5	3.6	
<b>EBITDA</b>	<b>8.0</b>	6.1	13.1	30.0

- Revenue up 21.2%
  - Constant FX growth 26%
  - All major territories increasing
- Gross margin 41.7% (HY17, 40.1%)
  - Removal of prior year hedging drag
  - Discount management
- EBITDA up 30.0% to £8.0m (HY17, £6.1m)
- Tax 12.2% of profit before tax
  - R&D benefit important.



## Balance Sheet

	<b>HY18</b>	<b>HY17</b>	<b>FY17</b>
	<b>£ million</b>	<b>£ million</b>	<b>£ million</b>
Intangible assets	5.2	5.2	5.0
Tangible assets	1.4	1.5	1.3
<b>Total non current assets</b>	<b>6.6</b>	<b>6.7</b>	<b>6.3</b>
Inventories	10.9	10.2	8.3
Debtors and other investments	11.1	10.2	13.0
Cash	19.7	9.4	14.2
<b>Total current assets</b>	<b>41.7</b>	<b>29.8</b>	<b>35.5</b>
<b>Total assets</b>	<b>48.3</b>	<b>36.5</b>	<b>41.8</b>
<b>Capital and reserves</b>			
Share capital and other reserves	1.8	1.2	1.2
Retained earnings	36.5	27.4	31.7
<b>Total Equity</b>	<b>38.3</b>	<b>28.6</b>	<b>32.9</b>
Current liabilities	9.4	7.4	8.7
Deferred tax	0.6	0.5	0.2
<b>Total liabilities</b>	<b>10.0</b>	<b>7.9</b>	<b>8.9</b>
<b>Total equity and liabilities</b>	<b>48.3</b>	<b>36.5</b>	<b>41.8</b>

- Intangible fixed assets include £4.2m of capitalised R&D and £1.0m of goodwill & other intangibles
  - R&D expenditure c6% of revenue
  - Typically capitalise c70% and write off over 3 years
- Stock turn of 4.0 times in HY18 (HY17, 3.6 times)
  - Further improvement in stock management
- Debtor days 49 days, down from 51 days at HY17
- Current liabilities up to £9.4m
  - Higher purchases of stock in Jan/Feb 2018



## Cash flow

	HY18	HY17	FY17
	£ million	£ million	£ million
<b>EBITDA</b>	<b>8.0</b>	<b>6.1</b>	<b>13.1</b>
Movement in working capital	1.0	0.0	0.6
<b>Operating cash flow</b>	<b>9.0</b>	<b>6.1</b>	<b>13.7</b>
Interest paid	-0.0	-0.0	-0.0
Tax paid	-0.2	-0.0	-0.7
Foreign exchange movement	-0.4	0.1	0.1
<b>Net cash from operating activities</b>	<b>8.4</b>	<b>6.2</b>	<b>13.1</b>
Investing	-2.0	-1.9	-3.6
<b>Underlying free cash flow</b>	<b>6.4</b>	<b>4.3</b>	<b>9.5</b>
Proceeds from share issue	0.3	0.2	0.2
Dividends	-1.1	-0.7	-1.1
<b>Net change in cash</b>	<b>5.5</b>	<b>3.8</b>	<b>8.6</b>
Opening cash	14.2	5.6	5.6
<b>Closing cash</b>	<b>19.7</b>	<b>9.4</b>	<b>14.2</b>

- Further working capital decrease (cash inflow).
  - Higher revenue would normally lead to an increase in working capital.
- Investing £2.0m, (HY17, £1.9m)
  - Capitalised R&D £1.7m (HY17, £1.6m)
  - Other capital expenditure (mainly tooling) £0.3m (HY17, £0.3m)
- Free cash flow 16% of revenue.
  - Long term average c7%.
- Closing cash £19.7m, up from £14.2m at FY17
  - Also HSBC revolving credit facility of £10m



## Summary and current trading

- Revenue up 21.2% with growth in both brands and all major territories.
- EBITDA up by 30.0% to £8.0 million (HY17: £6.1 million).
- Strong cash generation: Cash up from £14.2 million at FY17 to £19.7 million.
- Interim dividend of 1.0 pence, up 33.3% (HY17: 0.75 pence) recommended.
  - Moving towards an ongoing target dividend cover of 4-5x
- Since the half year end, revenue and cash have continued to grow although, as expected, at a slower rate than in the first half. We remain confident about the outlook for the rest of the year.





# Focusrite Growth Strategy



Grow core customer base

Increase lifetime value of customers

Expand into new and high potential markets

Innovation      Disruption      Expansion



# Market sizing of our customer personas and how our brands align

New Creator \$200-300M	Passionate Maker \$200-250M	Serious Aspiring Producer \$75-100M	The Master \$50-100M	Enterprise/Facility \$50-100M
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**AMPIFY**

 **novation**

**Focusrite®**

**Focusrite®**  
**PRO**

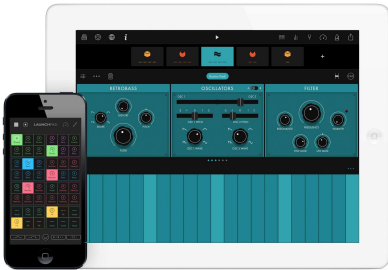


# Grow our customer base

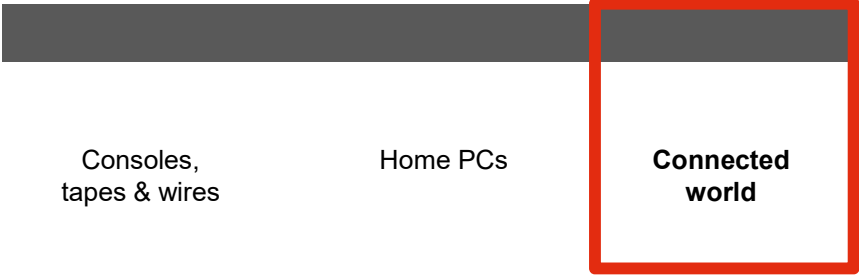


New product offerings as well as next generation versions and enhancements to current portfolio

- Customer relevant hardware & software to enable the creative process



New, disruptive solutions that increase our addressable market

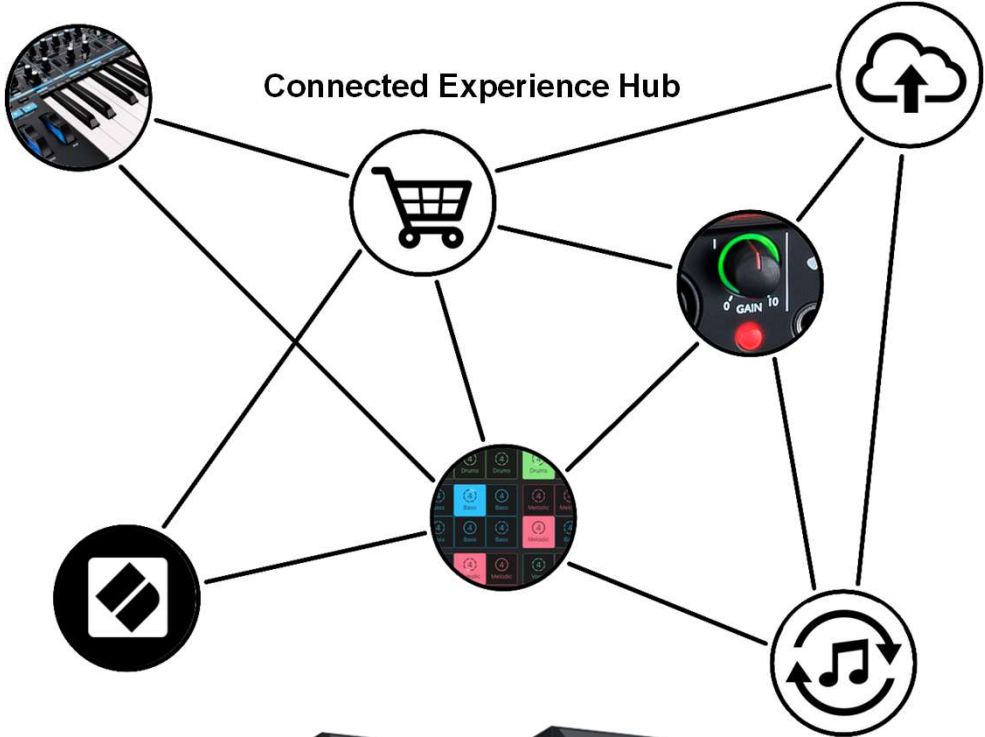




# Lifetime value of our Customers



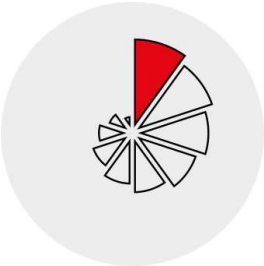
- Building a connected experience to tie our solutions together
- Add-on software tools and content
- Participation in more of the traditional value chain





# Expand into new customer markets

- Leverage current portfolio and IP to enter new markets



- Focusrite Pro:
  - Post Production
  - Broadcast
  - Education
  - Installed Sound



- Focusrite Scarlett range
  - Gaming





## Expand into new geographic markets

- Expand efforts in geographies with large potential



- Careful consideration of acquisitions





## Conclusions

- **Great half year operationally and financially.**
- **Since year end revenue and cash have both grown.**
- **Product plans talking shape.**
- **Geographic expansion continues.**
- **Strategy developments bearing fruit.**
  - Growing our customer base.
  - Increasing the lifetime value of our customers.
  - Expanding into new markets: both geographically and new verticals.

# Making Music Easy to Make