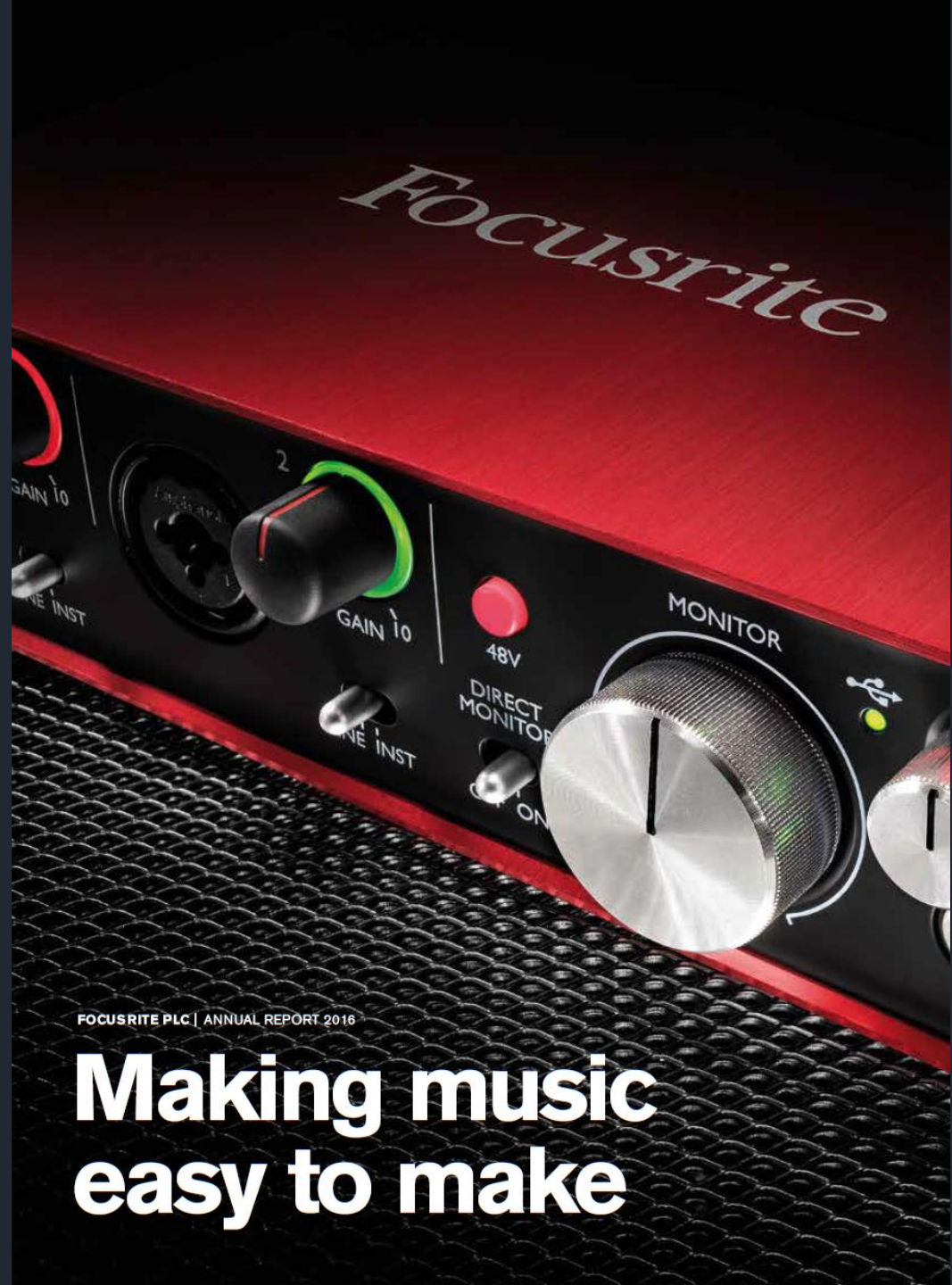


Focusrite plc

Final results for the year
ending 31 August 2016

November 2016



FOCUSRITE PLC | ANNUAL REPORT 2016

Making music easy to make

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Agenda

- **Introduction and Highlights**

Phil Dudderidge

- **Financial Highlights**
- **Markets and Products**
- **Financial Review**
- **Current Trading**
Jeremy Wilson

- **Final Comments**

Phil Dudderidge



Phil Dudderidge
Executive Chairman



Jeremy Wilson
Chief Financial
Officer

Introduction

- Global music and audio products company supplying hardware and software products used by professional and amateur musicians, enabling high quality production of music.
- Founded in 1989
- Two established brands:
 - Focusrite: audio recording equipment
 - Novation: hardware and software for creating and playing electronic dance music
- Global customer base: 160 territories
- Approximately 170 employees



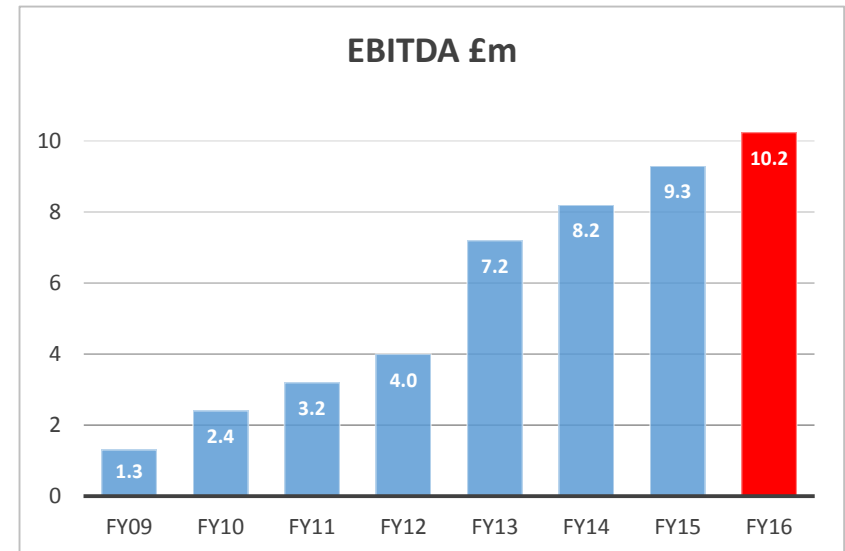
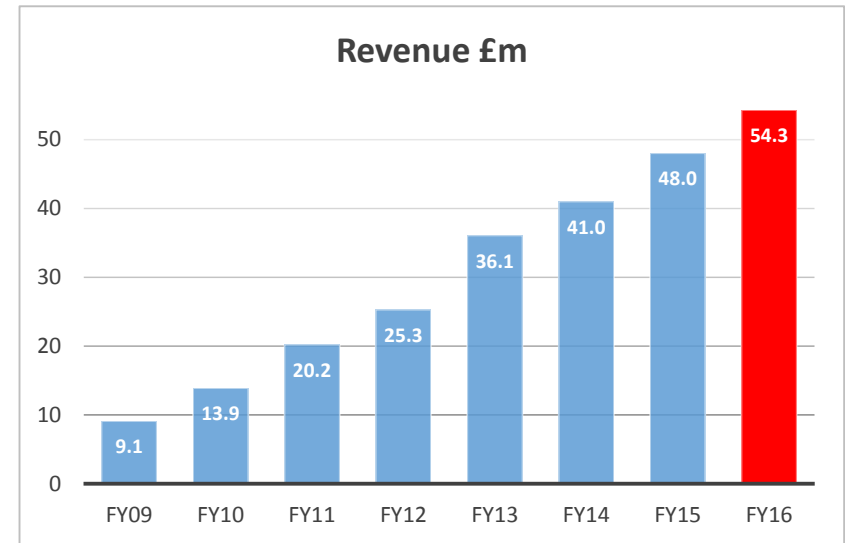
Three Queen's Awards
Innovation, 2008 and International
Trade, 2012 and 2016



100 Best Small Co's to Work For
Five years running to 2016

Highlights

- **Revenue up 13%** including continued growth in all regions.
- Important **new products** launched including Focusrite's Red range, Novation's Circuit and the 2nd generation of our best selling Scarlett interface range.
- **New Asia office.**
- **EBITDA up 10%**
- Fifth consecutive year as one of the “**100 Best Small Companies To Work For**” by The Sunday Times.
- **Queen's Award** for Enterprise in the category of International Trade



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Financial highlights for the year ended 31 August 2016

- Group revenue grew by 13.1% to £54.3 million (FY15: £48.0 million)
- Adjusted EBITDA¹ grew by 10.2% to £10.2 million (FY15: £9.3 million)
- Operating profit grew 13.0% to £7.1 million (FY15: £6.3 million)
- Profit before tax grew 9.9% to £7.1 million (FY15: £6.5 million)
- Basic earnings per share grew 13.5% to 11.8p (FY15: 10.4p)
- Adjusted² diluted earnings per share grew 8.6% to 11.4p (FY15: 10.5p)
- Net cash of £5.6 million (FY15: £6.2 million)
- Final dividend increased by 8.3% to 1.3p, making 1.95p for the year (FY15: 1.8p)

¹ Adjusted EBITDA is adjusted for non-underlying items, which, in the current period, comprise one-off legal costs

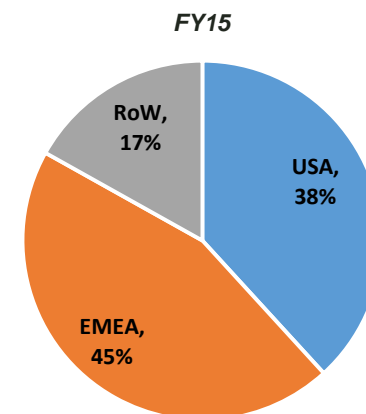
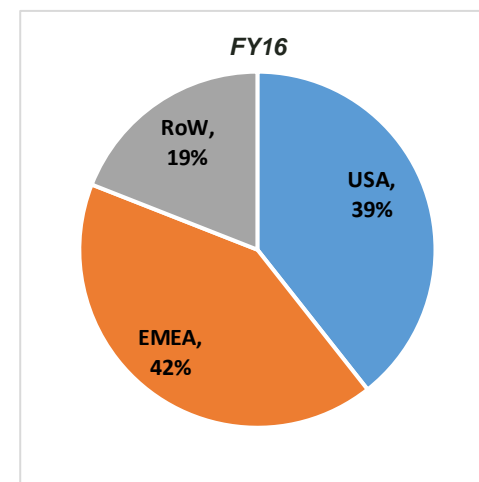
² Adjusted for non-underlying items comprising £0.7m IPO costs in FY15 and £0.5m legal costs in FY16.

2016: Markets

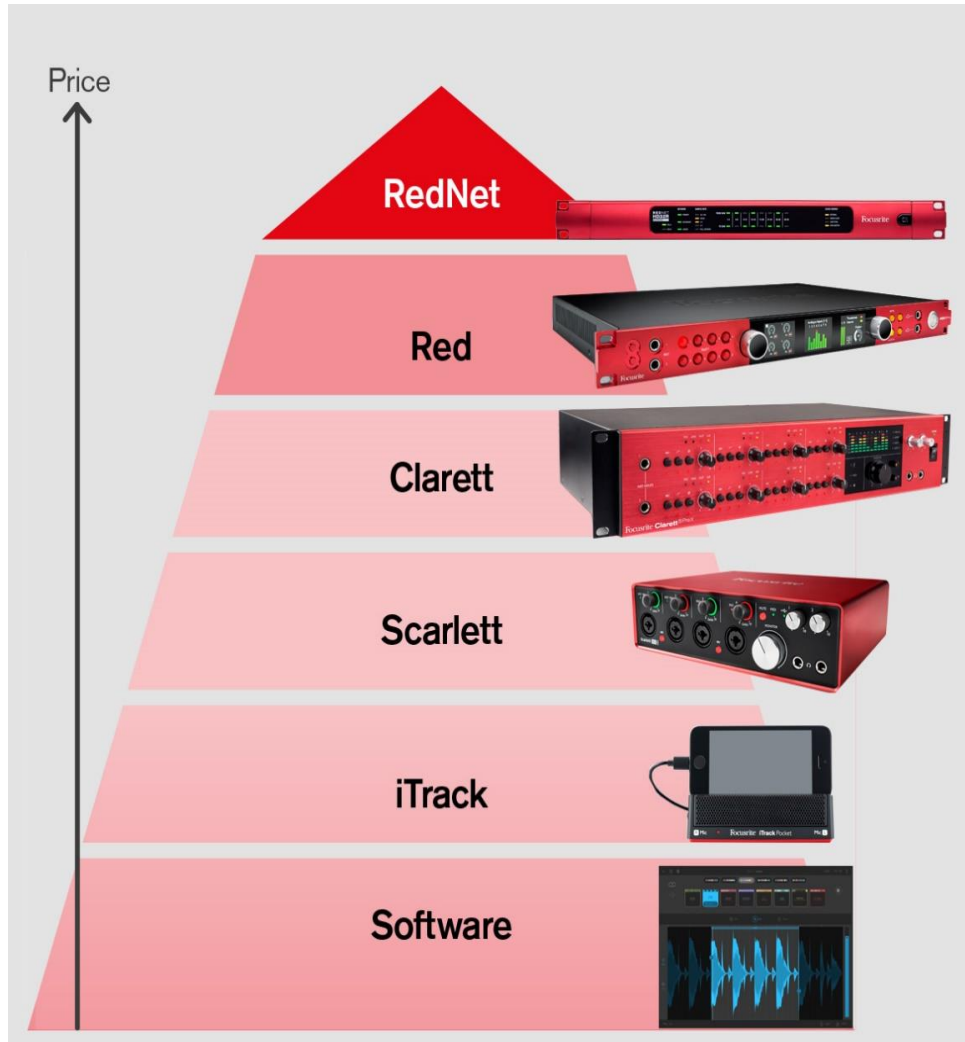
Segmental Revenue	FY16	FY15	Growth
	£m	£m	%
USA	21.4	18.5	15.6%
Europe, Middle East and Africa	22.6	21.5	5.2%
Rest of World	10.3	8.0	28.1%
Consolidated revenue	54.3	48.0	13.1%

- USA: up 15.6% to £21.4m
 - Strong market for Focusrite range.
 - Scarlett 2nd Gen very popular.
 - Strong uptake of Clarett and Red products in H2.
- EMEA: up 5.2% to £22.6m
 - Distributor changes to boost growth.
- Rest of World (mainly Asia): up 28.1% to £10.3m
 - New Asia office in Hong Kong to further grow regional demand.
 - Region strong for Novation
- eCommerce site launched

Regional split of revenue



Sectors: Focusrite



- Live, Broadcast, Education. Networked
 - \$3,000 upwards
- Red: Best quality interface. Professional user.
 - \$2,500 to \$3,500
- Clarett: Thunderbolt range. Project user.
 - \$500 to \$1,300.
- Scarlett. Mass market interface. Home user.
 - \$100 to \$500.
- iTrack. Mobile recording.
 - \$50 to \$250.
- Software. Low cost. Highly mobile.

Sectors: Focusrite

Focusrite	FY16	FY15	Growth
	£m	£m	%
Revenue	37.6	31.2	20.4%

- Scarlett 2nd Gen launched in H2. Already world's best selling interface. Initial demand excellent...another jump in growth.
- Clarett. Demand continues to grow.
- Red. Our new 'best of the best' quality interface. Just launched.
- Rednet still growing well. Market becoming more aware of benefits of 'Audio over IP'



Sectors: Novation

GRIDS

KEYBOARDS

CONTROLLERS



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



Keyboard Controllers (Launchkey)
\$80 to \$400

STANDALONE



Groove Box (Circuit)
\$330

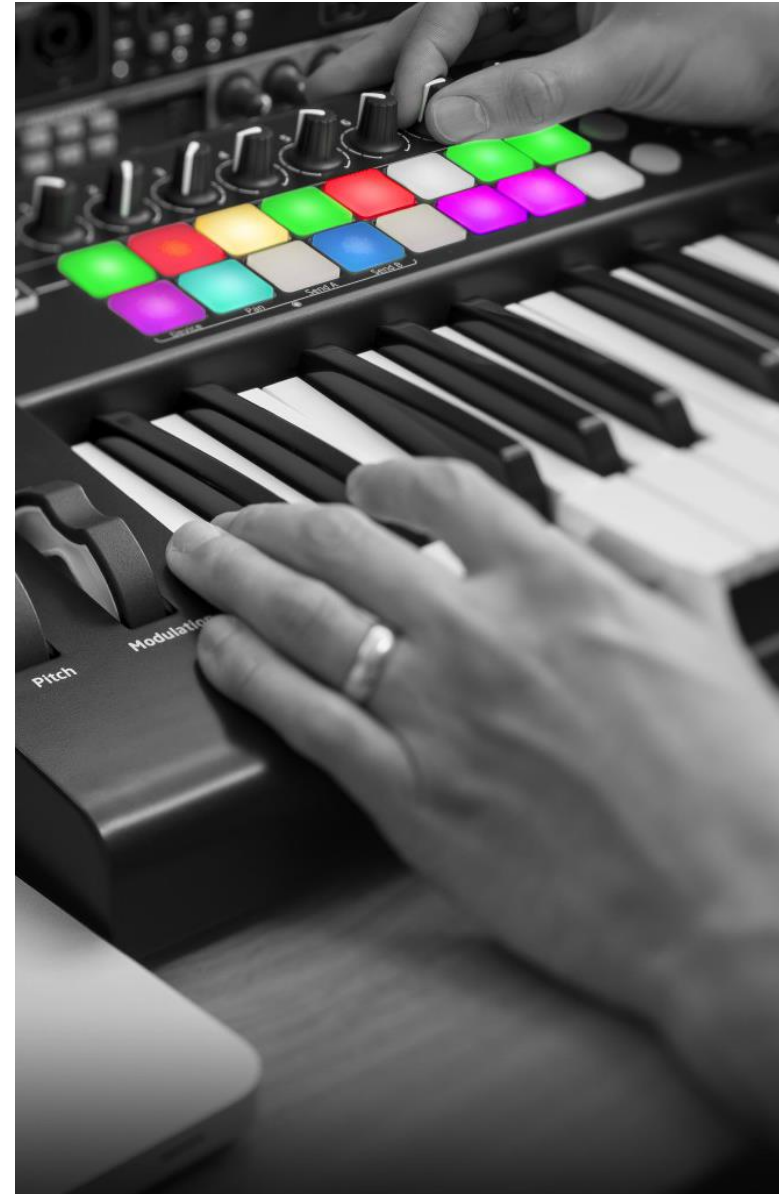


Synths (Bass Station II)
\$400 to \$600

Sectors: Novation

Novation	FY16	FY15	Growth
	£m	£m	%
Revenue	13.7	14.2	-3.4%

- FY15 was the major year of range renewal and channel load in.
- FY16 registrations up strongly
 - Dealer and distributor stocks reduced.
- New Circuit groovebox launched in H1 and boosted by software developments in H2.
- Apps. Launchpad App downloads now > 5m. Blocs Wave also launched as a paid-for app.
- FY17 new products in progress, especially further development of Circuit



Sectors: UK Distribution

Distribution	FY16	FY15	Growth
	£m	£m	%
Revenue	3.1	2.7	14.3%

- Most of this segment relates to KRK monitors. Notable boost in revenue.
- Also the Group has taken on the distributorship of sE mics.



Income statement

£ million	FY16	FY15	Growth
Revenue	54.3	48.0	13.1%
Cost of sales	-33.4	-29.4	
Gross profit	20.9	18.6	11.9%
Operating expenses before non-underlying items	-13.3	-11.6	13.4%
Operating profit before non-underlying items	7.6	7.0	9.3%
Non-underlying items	-0.5	-0.7	
Operating profit	7.1	6.3	13.0%
Net financing charges	0.0	0.2	
Profit before tax	7.1	6.5	9.9%
Tax	-0.8	-1.0	
Profit after tax	6.3	5.5	14.5%
Adjusted operating profit before non-underlying items	7.6	7.0	9.3%
Add back depreciation and amortisation	2.6	2.3	
Adjusted EBITDA	10.2	9.3	10.2%

- Revenue up 13.1%.
 - All major territories increasing.
- Gross margin 38.4% (FY15, 38.8%).
- Adjusted EBITDA up 10.2% to £10.2m.
- Non-underlying legal costs of £0.5 million.
 - Only one outstanding case.
 - No material effect on ongoing trading.
- Net financing charges zero
 - Hedge accounting so fair value of FX hedges shown in reserves.
- Tax 12.2% of profit before tax.
 - Tax benefits on R&D and vesting share options.

Balance Sheet

£ million	FY16	FY15
Intangible assets	4.8	3.9
Tangible assets	1.6	1.3
Total non current assets	6.4	5.2
Inventories	11.4	8.6
Debtors and other investments	11.2	8.0
Cash	5.6	6.2
Total current assets	28.2	22.8
Total assets	34.6	28.0
Capital and reserves		
Share capital and other reserves	1.0	1.5
P+L account	22.9	17.0
Total Equity	23.9	18.5
Current liabilities	10.4	8.8
Deferred tax	0.3	0.7
Total liabilities	10.7	9.5
Total equity and liabilities	34.6	28.0

- Intangible fixed assets include £4.2m of capitalised R&D and £0.6m of goodwill & other intangibles
 - R&D spend is >6% of revenue.
 - Prudent capitalisation (c80%) and aggressive amortisation (3 years).
- Stock turn of 2.9 times in FY16 (FY15, 3.4 times).
 - Several new ranges without demand history + six month lead time = more stock.
 - Higher revenue.
- Debtor days 59 days, up from 49 days in FY15.
- Current liabilities up to £10.4m
 - Higher, more recent purchases of stock to support demand.
- Deferred tax due largely to the capitalised R&D.

Cash flow

£ million	FY16	FY15
Adjusted EBITDA	10.2	9.3
Movement in wc (ex non-underlying items)	-6.2	-1.1
Operating cash flow (ex non-underlying items)	4.0	8.2
Interest (paid)	-0.1	0.0
Tax (paid)	-0.2	-0.8
Foreign exchange movement	0.4	0.0
Net cash from operating activities (ex non-underlying items)	4.1	7.4
Investing	-3.7	-3.5
Underlying free cash flow	0.4	3.9
Proceeds from share issue	0.2	0.0
Dividends	-1.0	-0.3
Non-underlying items	-0.2	-1.2
Net inc/dec in cash	-0.6	2.4
Opening cash	6.2	3.8
Closing cash	5.6	6.2

- Working capital higher due to higher stock (new products) and debtors (increased terms for US distributor).
- Investing £3.7m, (FY15, £3.5m)
 - Capitalised R&D £2.7m (FY15, £2.7m).
 - Other capital expenditure (mainly tooling) £1.0m (FY15, £0.8m).
- Non-underlying items:
 - FY16 payment of legal costs.
 - FY15 payment of IPO costs.
- Closing cash £5.6m, down from £6.2m in Aug '15 but up from £4.0m at the half year.

Summary and current trading

- Revenue up 13.1% with growth in all major territories
- Significant new products launched (including Scarlett 2nd Gen and further Clarett interfaces, Circuit groove-box and the best Red interface range)
- Adjusted EBITDA up by 10.2% to £10.2 million (FY15: £9.3 million)
- Cash has improved in H2 and a stronger management focus in the coming year.
- Queen's Award for Enterprise
- Final dividend of 1.3p (total 1.95p for year) recommended
- Positive trading momentum has continued in the period since the year end

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Key points to remember

- **Focusrite is a market leader**
 - Best quality product at each price point.
 - Developed, marketed and sold by great people.
- **Our culture is entrepreneurial and opportunistic.**
 - Recording studio console company -> Number one audio interface company in the world.
 - Plus Novation, RedNet and iOS software.
- **We are growing steadily with room to progress further.**
 - Only an eleven percent share of our addressable market.
 - Entering new segments driven by R&D spend.
 - Plus market growth through making music easy to make.
- **Focusrite is a diversified company**
 - Several market segments and worldwide sales.

**Making
Music Easy to
Make**