

Focusrite Plc

Interim results for the period ending
29 February 2020

May 2020

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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 audio products group that develops and markets proprietary hardware and software products. Used by audio professionals and musicians, its solutions facilitate the high-quality production of recorded and live sound

Founded in 1989

Six 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:** software and content for creating music
- **ADAM Audio:** studio monitors
- **Martin Audio:** live and installed sound

Global customer base: 160 territories

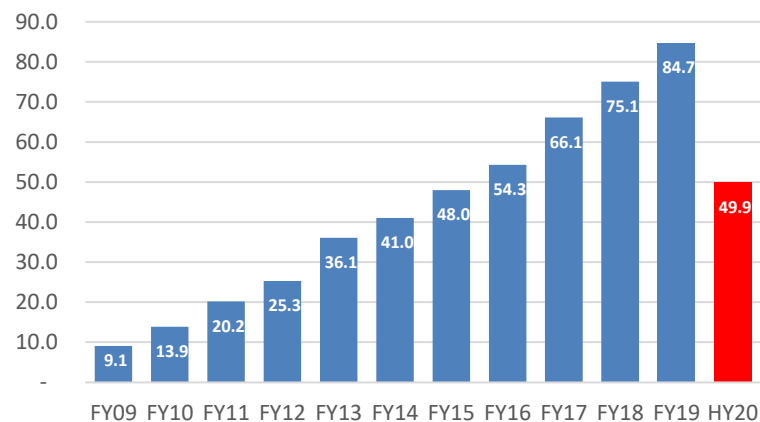
c400 employees



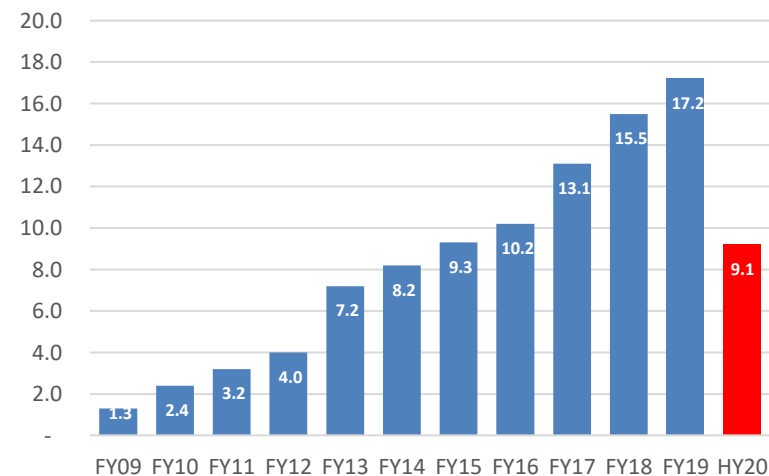
Highlights for the period ended 29 February 2020

- Revenue up 23.5% (25.3% at constant exchange rates¹)
- EBITDA² up 2.9% to £9.1 million
- Net debt of £19.9 million having bought Martin Audio
- Interim dividend decision deferred in view of uncertainty caused by COVID-19
- Completed the acquisition of Martin Audio in December 2019 for £39.6m

Revenue £m



EBITDA £m



¹ The constant currency revenue growth rate is calculated by dividing the sum of all transactions in HY20, translated at the average exchange rate for the relevant currency in HY19, by the sum of all transactions in HY19, translated at the same average exchange rate.

² Comprising earnings adjusted for interest, taxation, depreciation, amortisation and non-underlying items

Brand alignment

New Creator

Market size: \$225m-325m

- 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, ADAM Audio

Passionate Maker

Market size: \$250m-300m

- 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, ADAM Audio



PRODUCT POSITIONING

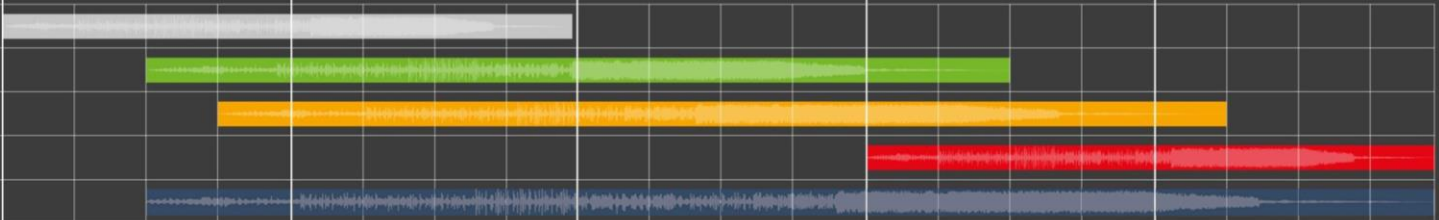
AMPIFY

novation

Focusrite

Focusrite PRO

ADAM AUDIO



Brand alignment

Serious Aspiring Producer

Market size: \$100m-150m

- 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, ADAM Audio

The Master/Facility

Market size: \$250m-350m

- 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, ADAM Audio

Gateway brands: Novation



PRODUCT POSITIONING

AMPLIFY

novation

Focusrite

Focusrite PRO

ADAM AUDIO

Martin Audio : Markets and Customer examples



- **Festivals**
 - Glastonbury (multiple stages)
 - Rock in Rio
 - BST Hyde Park
 - Rock in Japan



- **Corporate**

- **Touring**

- Steely Dan
- Mumford & Sons
- The Killers
- Barry Manilow
- Stereophonics
- Etc



to the band in the local pub.....

- **Small installs**
 - Microsoft global offices
 - Caesar's Palace
 - Marriot's The View NYC
- **Large installs – nightclubs to churches**
 - Ministry of Sound London – the box
 - Calvary Church
- **Theatre**
 - Jesus Chris Superstar
 - Starlight Express



Product sectors: Focusrite

Focusrite	HY20	HY19	FY19
	£m	£m	£m
Revenue	25.6	26.3	57.6

- Scarlett and Clarett down 3% on prior year
 - Initial stocks of the new generation of Scarlett shipped prior to the previous year end
- Total end user registrations significantly up year on year, which is good lead indicator of future demand improvement
- Net promoter scores up due to improved customer onboarding journey



Product sectors: Focusrite

Focusrite Pro	HY20	HY19	FY19
	£m	£m	£m
Revenue	1.9	2.6	4.7

- RedNet and Red down 27% compared to prior year
- Red products nearing the end of their lifecycle
- Changes made to the sales organisation



Product sectors: Novation

including Ampify

Novation	HY20	HY19	FY19
	£m	£m	£m
Revenue	9.9	9.8	17.7

- Novation revenue up 1% year on year
- Introduction of new Launchpads and the first of a new generation of Launchkeys
- New and enhanced 'out of the box' and onboarding journey to get both new users and professionals alike up and running quickly
- Ampify. London innovation software division
 - Just launched first Mac/Windows music creation software: Ampify Studio
 - 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: ADAM Audio

ADAM Audio	HY20	HY19	FY19
	£m	£m	£m
Revenue	7.0	-	1.8

- Purchased July 2019
- High precision studio monitors
- AX and S series used professionally. T series for home studio and aspiring professionals
- Integration progressing well
- Revenue c13% up on their prior year (which was prior to acquisition)
- Some early wins post-acquisition in consolidation of distribution in various markets
- In light of the Group's acquisition of ADAM Audio, the Group will cease distributing third-party brands by the year end



Product sectors: Martin Audio

ADAM Audio	HY20	HY19	FY19
	£m	£m	£m
Revenue	4.5	-	-

- Purchased December 2019
- Solutions for live/tour sound and installed sound
- Revenue c22% up on their prior year (which was prior to acquisition)
 - Likely hiatus during COVID-19 upheaval but medium-term growth in revenue and profits expected



Broad Product Portfolio with multiple USP's

Line Arrays

O-Line



Point Source Products

CDD-Live!



Blackline X

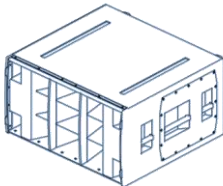


CDD



Subs

SX-Series



Electronics



iKON

VIA



DX

Financial highlights for the period ended 29 February 2020

- Group revenue up by 23.5% to £49.9 million (HY19: £40.4 million)
- Adjusted EBITDA up by 2.9% to £9.1 million (HY19: £8.9 million)
- Adjusted operating profit down by 12.0% to £6.4 million (HY19: £7.3 million)
- Adjusted diluted earnings per share 9.3p (HY19: 11.0p)
- Acquired Martin Audio in December 2019 for £39.6 million
- Net debt of £19.9 million (FY19: Net cash of £14.9 million. HY19: Net cash of £26.2 million)
- Interim dividend decision deferred in view of the uncertainty caused by COVID-19

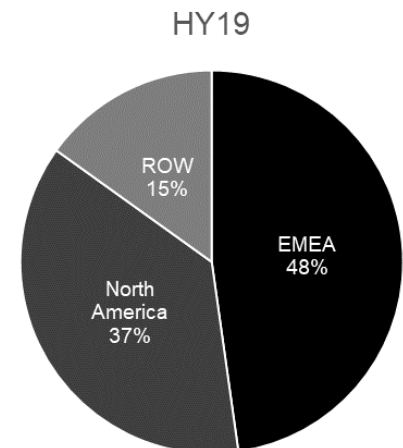
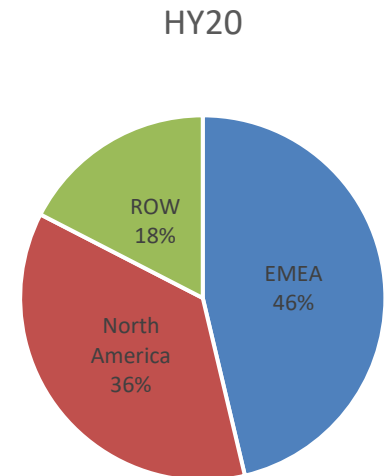
HY20: Regional performance

Segmental Revenue	HY20	HY19	FY19
	£m	£m	£m
Europe, Middle East and Africa	23.1	19.3	36.4
North America	18.1	15.0	34.0
Rest of World	8.7	6.1	14.3
Consolidated revenue	49.9	40.4	84.7

- EMEA: up 19.7% to £23.1m
 - Focusrite Audio Engineering products down 5.1%
 - Tough comparative as prior year revenue included some Brexit boost and current year includes some COVID-19 deferral
 - ADAM and Martin both contributing strongly to the region

- North America: up 20.9% to £18.1m
 - Focusrite Audio Engineering revenue down 3.5% but flat when we remove the effect of prior year price change to combat tariff increases
 - ADAM up in region by 14%
 - Martin's revenue up 17% in region

- Rest of World: up 41.8% to £8.7m
 - Asia down for Focusrite Audio Engineering by 7%, but Latin America up 48%
 - ADAM revenue up 26% in region
 - Martin revenue up 37% in region



Income Statement

	HY20	HY19	FY19
	£m	£m	£m
Revenue	49.9	40.4	84.7
Cost of sales	(26.9)	(22.5)	(48.9)
Gross profit	23.0	17.9	35.8
Operating expenses before non-underlying items	(16.6)	(10.6)	(22.3)
Operating profit before non-underlying items	6.4	7.3	13.5
Non-underlying items	(3.4)	-	(0.7)
Operating profit	3.0	7.3	12.8
Net financing charges	(0.3)	(0.1)	0.2
Profit before tax	2.7	7.2	13.0
Tax	(0.6)	(0.8)	(1.3)
Profit after tax	2.0	6.4	11.7
Operating profit before non-underlying items	6.4	7.3	13.5
Add back depreciation and amortisation	2.7	1.6	3.7
EBITDA	9.1	8.9	17.2

- Revenue up 23.5%
 - Constant currency growth 25.3%
 - Revenue boosted through inclusion of ADAM and Martin
 - COVID-19 stopped £2m of orders in Feb 2020
- Gross margin 46.1% (HY19: 44.3%)
 - Helpful business mix (ADAM up, Distribution down)
 - Also price increases where new product specification improved and lower royalties
- EBITDA up 2.9% to £9.1m (HY19: £8.9m)
 - HY19 included one off benefit of c£0.7m for US price increases to combat tariff increases
- Tax 24% of profit before tax
 - Non-underlying costs assumed largely disallowable
 - c11% of PBT excluding non-underlying costs

Revenue to diluted EPS bridge

Earnings per share	Movement
Increase in Revenue	23.5%
Effect of change in cost of sales	9.8%
Effect of change in administrative costs	(30.4)%
Increase in EBITDA	2.9%
Effect of change in depreciation	(15.1)%
Effect of change in FX rates	(0.1)%
Effect of change in net finance charges	(3.0)%
Effect of change in tax charge	0.5%
Effect of change in share	(0.7)%
Decrease in adjusted diluted EPS	(15.5)%
Effect of change in amortization of acquired intangibles	(16.0)%
Effect of change in non-underlying costs	(31.1)%
Effect of additional tax charge from non-underlying costs	(5.6)%
Decrease in diluted EPS	(68.2)%

- Revenue up due to newly acquired ADAM and Martin. Focusrite down 5.1%.
- GM 46.1% vs 44.3% in HY19. ADAM GM 54%. Also the lower margin distribution segment down.
- Op costs up mainly due to acquisitions: ADAM 41% of revenue. Martin 28%.
 - Focusrite 25% of revenue. Up due to higher marketing and IT cost. Some savings initiated. Costs lower since half year.
- Higher depreciation due to start of Scarlett 3rd Gen + £0.4m due to IFRS16.
- Amortisation of acquired intangibles is £1.2m. It relates to ADAM and Martin and is disclosed in non-underlying costs.
- Other non-underlying costs relate to acquisition costs (£1.8m) + one off redundancy costs (£0.4m).

Balance Sheet

	HY20	HY19	FY19
	£m	£m	£m
Intangible assets	59.1	6.7	24.1
Tangible assets	4.2	1.2	1.6
Total non current assets	63.3	7.9	25.7
Inventories	18.6	12.3	15.2
Debtors and other investments	19.3	13.1	18.2
Cash	12.8	26.2	15.5
Total current assets	50.7	51.6	48.9
Total assets	114.0	59.5	74.6
Capital and reserves			
Share capital and other reserves	2.5	2.4	1.6
Retained earnings	52.5	46.9	51.8
Total Equity	55.0	49.3	53.4
Current liabilities	18.2	9.4	16.9
Non current liabilities	40.8	0.8	4.3
Total liabilities	59.0	10.2	21.2
Total equity and liabilities	114.0	59.5	74.6

- Intangible fixed assets:
 - Acquisition of Martin: £22.7m of identified intangible assets and £12.3m of goodwill
 - Includes ADAM intangibles £12.0m (at acquisition) + goodwill £4.9m
 - Remainder largely Focusrite cap'd R&D
- Working capital 21% of revenue
- Non-current liabilities includes deferred tax on acquisition of Martin of £3.9m and RCF drawdown of £33.0m

Cash flow

	HY20	HY19	FY19
	£m	£m	£m
EBITDA	9.1	8.9	17.2
Movement in working capital	(0.1)	(1.8)	(2.6)
Operating cash flow	9.0	7.1	14.6
Interest received/(paid)	(0.2)	0.1	0.2
Tax paid	(0.8)	(0.1)	(0.8)
Net cash from operating activities	8.0	7.1	14.0
Investing	(41.2)	(2.2)	(19.9)
Free cash flow	(33.2)	4.9	(5.9)
Proceeds from share issue	-	-	-
New bank loan	32.7	-	-
Dividends	(1.5)	(1.3)	(2.0)
Net change in cash	(2.0)	3.6	(7.9)
FX movement	(0.1)	(0.2)	-
Opening cash	14.9	22.8	22.8
Closing cash	12.8	26.2	14.9

- Working capital 20.9% of revenue (HY19: 19.8%)
- Investing £41.2m, (HY19: £2.2m)
 - Acquisition of Martin (£35.3m, net of cash acquired)
- Free cash flow before acquisition 9% of revenue
 - Long term average 9-10%

	HY20	HY19	FY19
	£m	£m	£m
Free cash flow	(33.2)	4.9	(5.9)
Add - non-underlying cash outflows	37.6	-	16.1
Underlying free cash flow	4.4	4.9	10.2

- Closing net debt £19.9m; includes RCF drawdown of £33.0m
 - Has improved by a further £4 million since the period end

Outlook

- Since the half year, consumer demand has been high
- Record levels of product registrations at Focusrite indicating positive sell-through to end-users but demand for Martin Audio products affected by the temporary hiatus in live music
- Manufacturing in China is back up to speed and we are working hard to ensure that consumers can still get the product they wish to buy without delay
- Our people are adapting well to the unusual working conditions, supported by state-of-the-art IT and communications facilities that enable working at home
- We are confident that the Group will come through this upheaval stronger than ever

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.

Conclusions

- Revenue up 23.5% to £49.9 million (HY19: £40.4 million)
 - Focusrite plc revenue boosted by ADAM and Martin products
- All regions grew
- EBITDA up by 2.9% to £9.1 million (HY19: £8.9 million)
- Whole team performing well amongst COVID-19 pandemic
- Consumer demand now at record levels
- Look forward with continued confidence

Focusrite Plc

Additional Information

May 2020

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: 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

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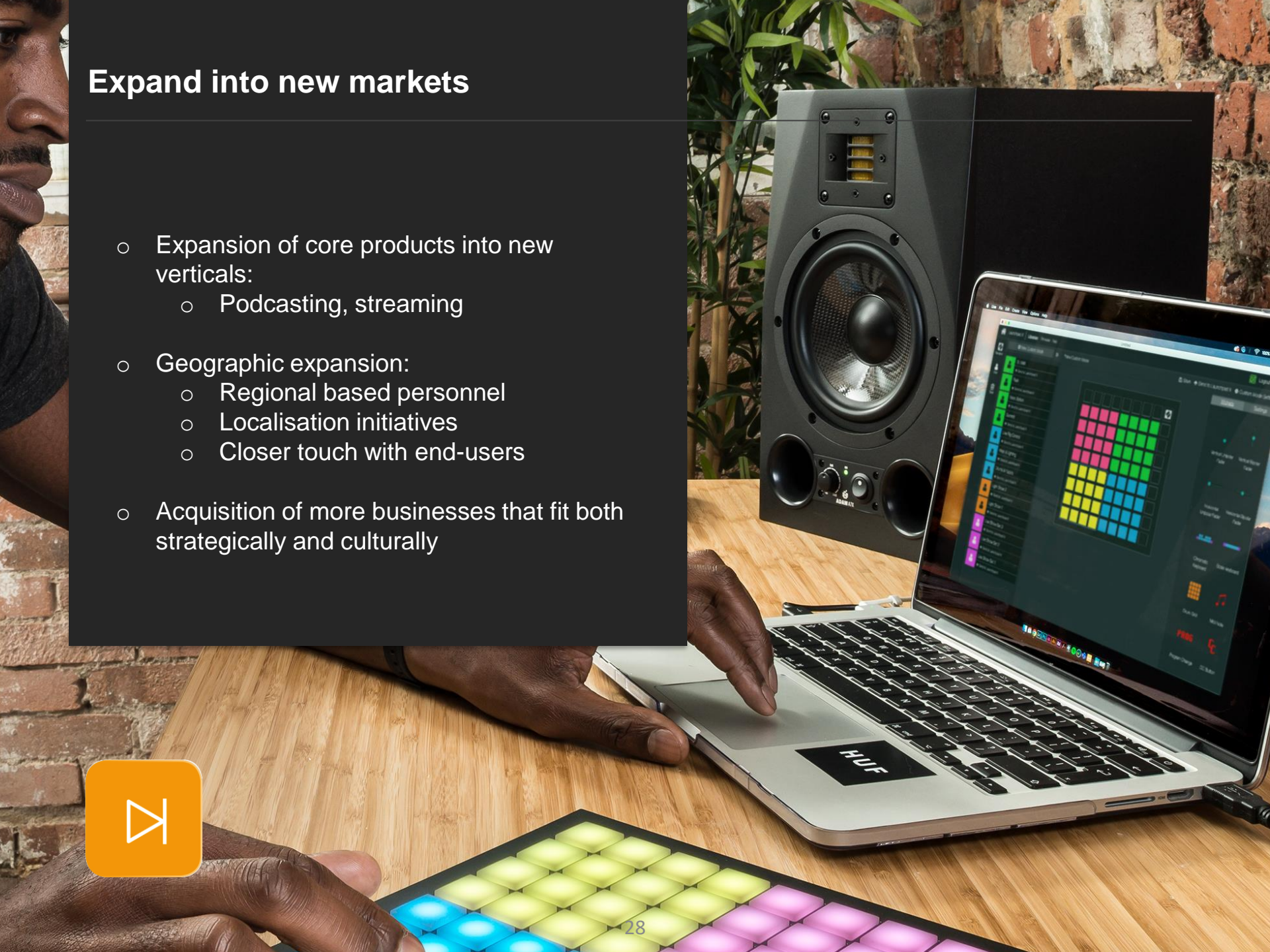
Grow the core customer base

- Innovations that make music-making and audio production 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



Expand into new markets

- Expansion of core products into new verticals:
 - Podcasting, streaming
- Geographic expansion:
 - Regional based personnel
 - Localisation initiatives
 - Closer touch with end-users
- Acquisition of more businesses that fit both strategically and culturally



Lifetime value for our Customers

- Lead the industry in putting the needs of the music-maker and audio engineer 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



Foreign exchange

Exchange rates	HY20	HY19	FY19
Average			
US\$:£	1.28	1.29	1.29
€:£	1.16	1.13	1.13
Average rate of forward contracts			
€:£	1.12	1.10	1.10
Weighted average applicable rate			
US\$:£	1.28	1.29	1.29
€:£	1.13	1.11	1.11
Period end rate			
US\$:£	1.28	1.33	1.22
€:£	1.16	1.17	1.11

- Average US\$ declined by 0.8%.
 - US and ROW. Total c50% of revenue but almost all cost of sales so minor net profit outflow.
- Average reported € increase by 2.7%.
 - c70% of major Euro flows hedged.
 - Therefore average blended € rate strengthened by c1%.
- Constant exchange rate revenue growth 25.3%.

Number of shares

Shares	HY20	HY19	FY19
Shares in issue	58,111,639	58,111,639	58,111,639
Less shares held by EBT	-383,114	-795,499	-801,447
Weighting through period	-191,535	-94,520	-89,286
Weighted average shares for EPS	57,536,990	57,221,620	57,220,906

- Shares in issue currently 58,111,639
- But required to deduct EBT shares for EPS calculation

Share options	HY20	HY18	FY19
Directors	472,287	392,907	392,907
Staff	1,240,911	1,576,207	1,576,207
Total options o/s at start of period	1,713,198	1,969,114	1,969,114
New options issued	136,238	165,779	381,982
Options exercised	-398,751	-380,088	-392,935
Options cancelled	-78,387	-133,820	-244,963
Total options o/s at end of period	1,372,298	1,620,985	1,713,198
Less shares held by EBT	-383,114	-795,499	-782,652
Potential dilution	989,184	825,486	930,546

- 1.4m options in issue
- 0.4m shares held by EBT so much of the likely dilution already taken

Earnings per share

Earnings per share	HY20	HY19	FY19	Movement
	p	p	p	
Basic	3.6	11.1	20.4	(67.6)%
Diluted	3.5	11.0	20.1	(68.2)%
Adjusted basic	9.4	11.1	21.7	(15.3)%
Adjusted diluted	9.3	11.0	21.4	(15.5)%

Basic and diluted EPS include £3.4m of non-underlying costs relating to the acquisition of ADAM and Martin.

Reconciliation of revenue growth down to adjusted diluted EPS decline included earlier in the presentation.

Focusrite Plc

**Enriching Lives Through
Music**