

Focusrite Plc

Results for the period ending
28 February 2021

27 April 2021

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Agenda

Introduction and Highlights

Product Sectors

Financial Review

Growth Strategy

Conclusions



Tim Carroll
Chief Executive
Officer



Sally McKone
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. Eight 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.
- **Optimal Audio:** Commercial Audio: launched 20 April 21.
- **Sequential:** High end synthesisers, acquired April 2021

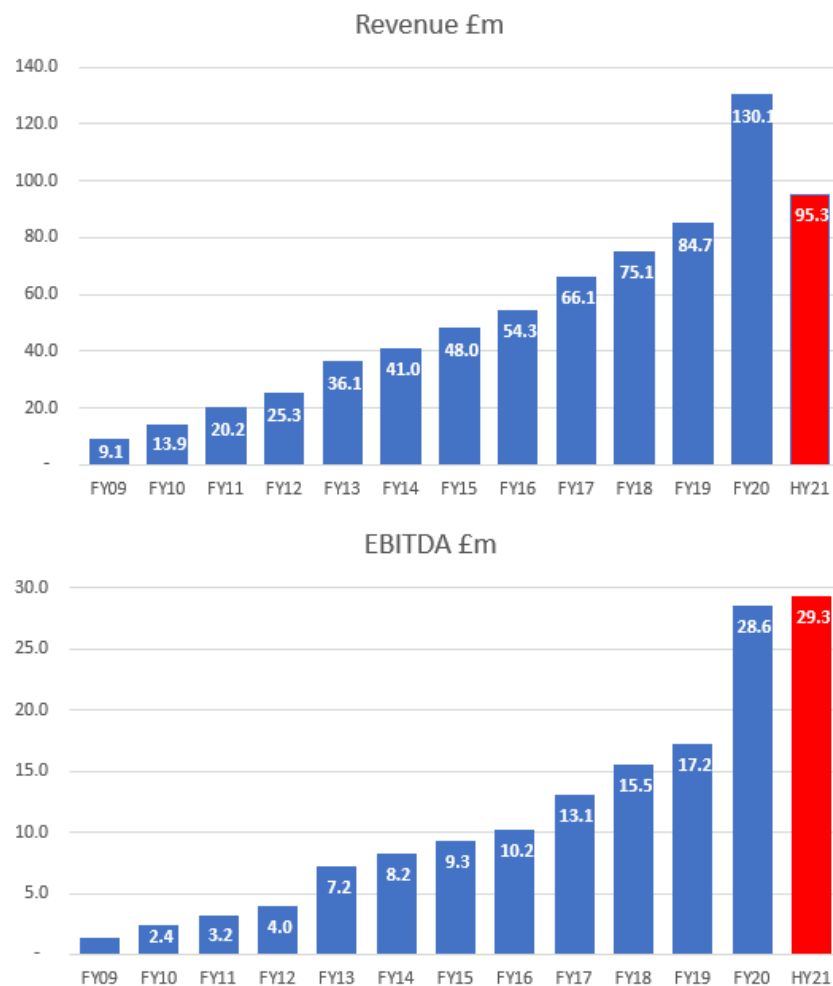
Global customer base: 160 territories

Over 400 employees



Highlights for the period ending 28 February 2021

- Revenue up 90.9%¹ (64.3% at OCC growth²)
- Adjusted EBITDA³ up 219.9% to £29.3 million
- Half year net cash £19.1m including RCF arrangement fee.
- Martin Audio is now included for a full six months, compared to two months in HY20
- Interim dividend of 1.5 pence, up 15% from 1.3 pence announced in July 2020



¹ Calculated as the percentage difference in the reported numbers in £ thousands.

² The organic constant currency (OCC) growth rate is calculated by comparing HY21 revenue to HY20 revenue adjusted for exchange rates and the impact of acquisitions.

³ Comprising earnings adjusted for interest, taxation, depreciation, amortisation, goodwill impairment and non-underlying items

Product sectors: Focusrite

Focusrite	HY21	HY20	FY20
	£m	£m	£m
Revenue	58.3	25.6	76.2

- Segment growth driven by strong demand for Scarlett, up 111%
- Clarett up 47%
- Demand remained high during multiple worldwide lockdowns.
 - Customers reverting to their passion for making music
 - Also, wider uses including podcasting, streaming and video conferencing
- Increased level of demand has continued past the end of regional lockdowns, indicating a general rise in awareness and demand for these solutions.



Product sectors: Focusrite Pro

Focusrite Pro	HY21	HY20	FY20
	£m	£m	£m
Revenue	2.7	1.9	3.5

- Overall segment growth of 42%
- Number of new product launches and focus on helping enterprise customers continue to create content during the pandemic
- RedNet recently deployed at Presidential inauguration:
“We pride ourselves on investing in the best-sounding and highest quality products in a given category. ... We have not been disappointed with our RedNet investment.”

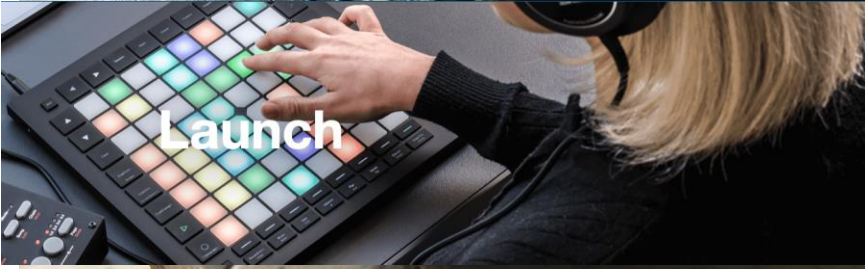
Maryland Sounds International



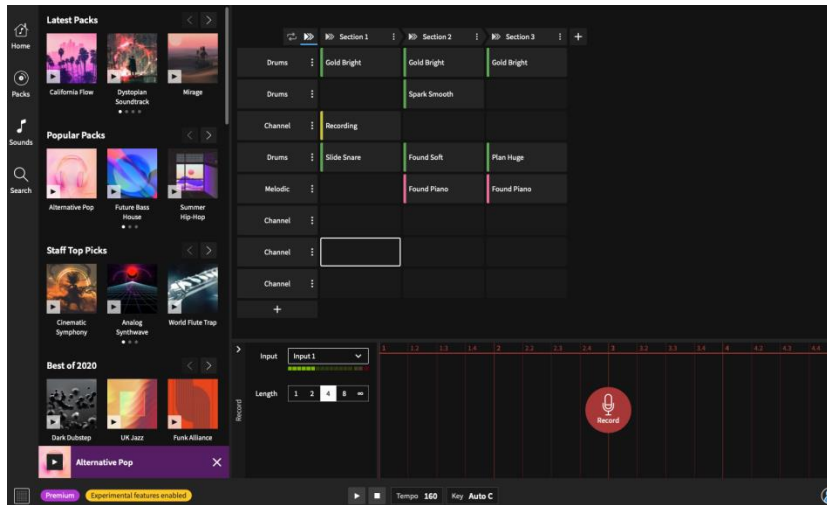
Product sectors: Novation

Novation	HY21	HY20	FY20
	£m	£m	£m
Revenue	13.0	9.9	19.3

- Novation up 31% on prior year.
- New generation Launchpad and Launchkey products doing well.



Product sectors: Ampify



Ampify Studio :

- Powerful cross platform music creation app
- Make music in minutes.
- Create ideas easily and start building arrangements in a few clicks.
- Free to download with limited content
- Advanced features and use of entire Ampify Sounds library available with monthly subscription

- 868k app downloads in first half
- 2,250 Launchpad Premium Subscribers, 1,300 Ampify Premium Subscribers
- Ampify Studio along with the content label, Ampify Sounds, growth in line with expectations in our subscription user base



Launchpad iOS, Groovebox, Blockswave:

iOS apps that allow creation of music on iPhones/iPads

Freemium iOS apps and add-on packs starting from **\$1**

Product sectors: ADAM Audio

ADAM Audio	HY21	HY20	FY20
	£m	£m	£m
Revenue	12.6	7.0	17.4

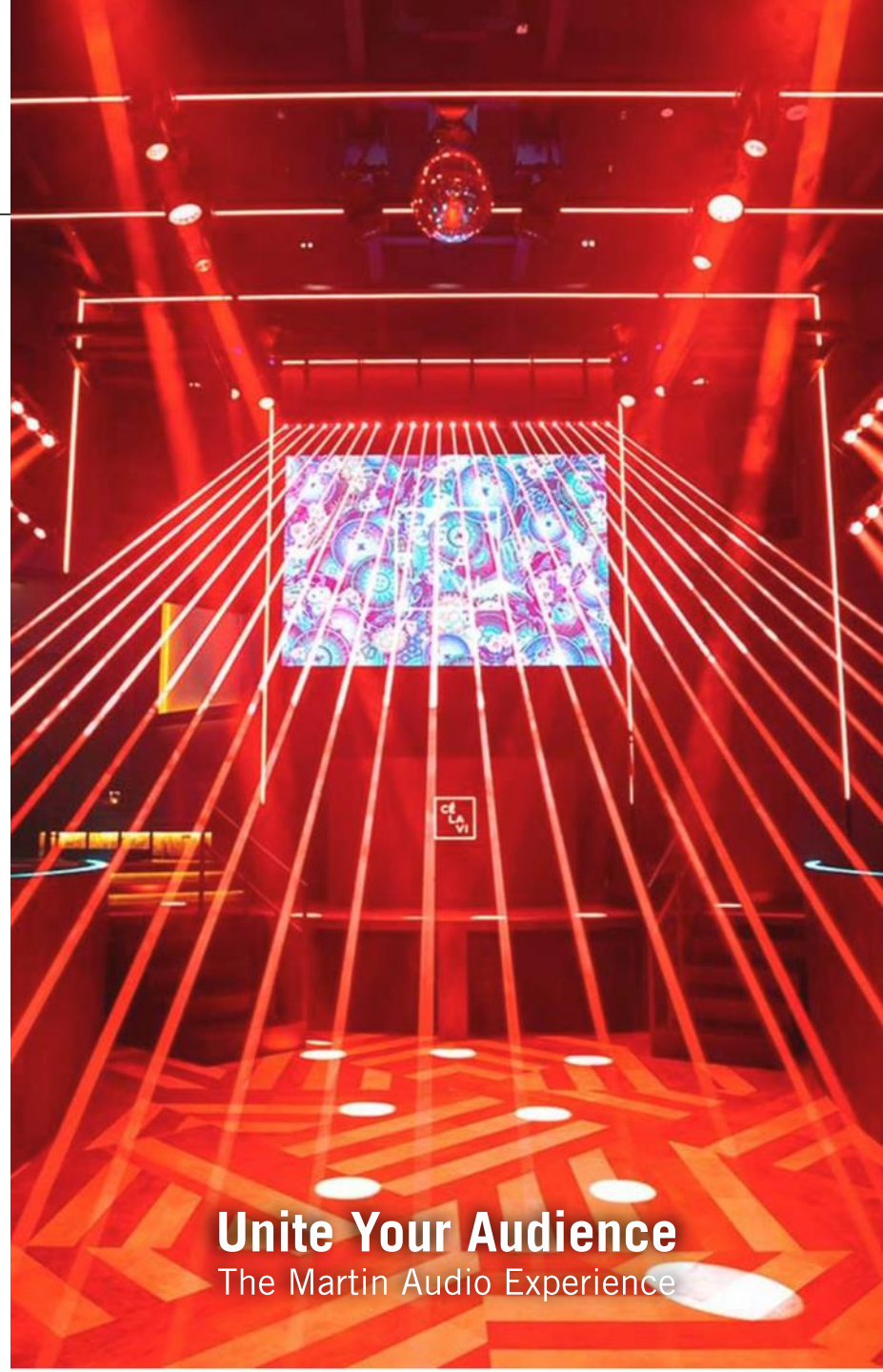
- Revenue up 79% on prior year
- T-Series has been the go-to monitor for startup home-studio, allowing these lines to grow 142% over the previous year
- Enterprise level S series and AX-Series also showing significant growth, particularly in key North America market



Product sectors: Martin Audio

Martin Audio	HY21	HY20	FY20
	£m	£m	£m
Revenue	8.7	4.5	12.0

- Purchased December 2019, HY21 includes full six months, compared to two-month comparative.
- Successful results in H1 reacting to reduced demand delivering
 - tight control of costs
 - profits in line with expectations
 - sales increasing steadily during the half year
- Continued investment in research and development including the new China exclusive P.I. series, the ground-breaking TORUS system and Display 3 software solution
- April launch of Optimal Audio



Unite Your Audience
The Martin Audio Experience

Product sectors: Sequential

Sequential	Sales	EBIT
	\$m	\$m
Year to Dec 2020 (unaudited)	18.3	3.5



- Leading American synthesiser company/iconic brand with decades of legacy
- Purchased April 2021, \$20m on completion with up to \$4m further earn out
- Headquartered in San Francisco
- 15 employees
- Products are assembled in California using contract manufacturing
- Sales mix is 40% domestic and 60% export
- Sales are direct to music stores in most territories and through distributors in 4 countries



Financial highlights for the period ended 28 February 2021

- Group revenue up by 90.9% to £95.3 million (64.3% constant currency organic growth¹) (HY20: £49.9 million)
- Gross margin improved to 48.0% (HY20: 46.1%)
- Adjusted EBITDA² up by 219.9% to £29.3 million (HY20: £9.1 million)
- Net cash of £19.1 million (FY20: net cash £3.3 million, HY20: net debt of £19.9 million) including the loan arrangement fee.
- Consumer demand remained at record levels across the Focusrite, Novation and ADAM Audio ranges
 - Focusrite operating company revenue up by 93.1% to £74.0 million (HY20: £38.4 million)
 - ADAM Audio revenue in up by 78.7% to £12.6 million (HY20: £7.0 million)
 - Martin Audio is profitable despite reduced demand due to COVID-19 restrictions
- Interim dividend of 1.5 pence, up 15% from 1.3 pence announced in July 2020.

¹ The constant currency organic growth rate is calculated by comparing HY21 revenue to HY20 revenue uplifted by the average exchange rate for the relevant currency in HY21 and adding back annualised results for Martin Audio.

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

COVID-19

- Revenue
 - Significant boost in Focusrite & ADAM products geared to home recording
 - Significant reduction in Martin Audio
 - Post lockdown: broader base

- Customers and suppliers
 - Robust systems have continued to support our global customer base
 - Our facilities and those of our manufacturing partners have taken measures to ensure workforce welfare and safety, enabling production to continue
 - Component supply an increasing factor in supply chains globally

- People
 - Group continuing to work at home with very little disruption
 - Skeleton staff returned to office
 - Workplace testing for those in the office
 - Our people remain dedicated and flexible despite sometimes challenging situation

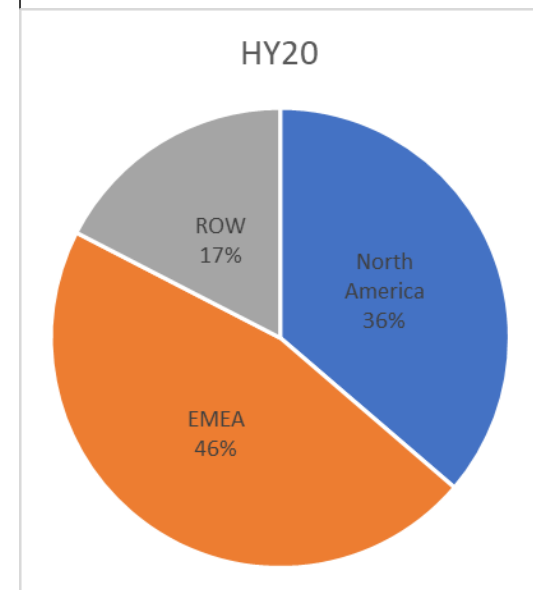
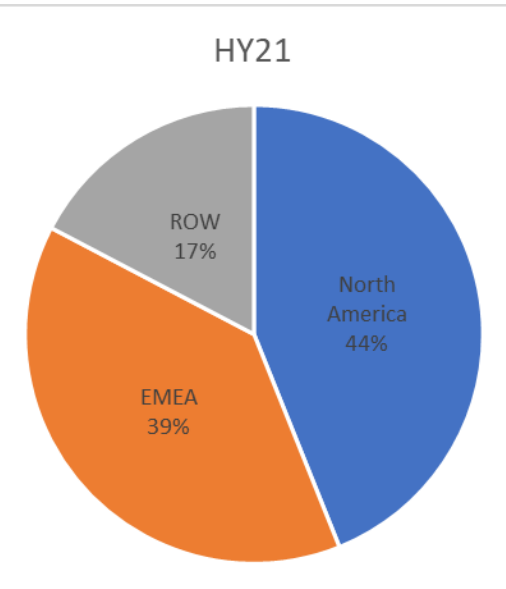
HY21: Regional performance

Revenue	HY21	HY20	FY20
	£m	£m	£m
North America	41.8	18.1	50.9
Europe, Middle East and Africa	36.9	23.1	56.4
Rest of World	16.5	8.7	22.8
Consolidated revenue	95.3	49.9	130.1

- North America: up 131% to £41.8m (OCC growth 105.0%)
 - FAEL up 148%.
 - Strong boost in Scarlett

- EMEA: up 60% to £36.9m (OCC growth 40.5%)
 - FAEL up 57%.
 - Pronounced shift to on-line retailers with a continental reach
 - Multiple lockdowns across the continent

- Rest of World: up 89% to £16.5m (OCC growth 43.7%)
 - Comprises APAC and LATAM
 - FAEL up 69%.
 - Relative strength for Martin



Income Statement

	HY21	HY20	FY20
	£m	£m	£m
Revenue	95.3	49.9	130.1
Cost of sales	(49.6)	(26.9)	(70.2)
Gross profit	45.7	23.0	59.9
Operating expenses before non-underlying items	(19.4)	(16.6)	(36.9)
Operating profit before non-underlying items	26.3	6.4	23.0
Non-underlying items	(2.1)	(3.4)	(15.1)
Operating profit	24.2	3.0	7.9
Net financing charges	(0.6)	(0.3)	(0.9)
Profit before tax	23.6	2.7	7.0
Tax	(4.3)	(0.6)	(2.9)
Profit after tax	19.3	2.0	4.1
Operating profit before non-underlying items	26.3	6.4	9.8
Add back depreciation and amortisation	3.0	2.7	18.8
Adjusted EBITDA	29.3	9.1	28.6

- Revenue up 90.9% (OCC growth 64.3%)
 - FAEL and ADAM seeing strong demand throughout
- Gross margin 48.0% (HY20: 46.1%)
 - Improvements due to channel and price management (more direct to dealer) and lower duty and royalties
 - In HY21 customs refund of £0.6m
- Operating expenses £19.4m +17%
 - Full 6 months contribution from Martin (£1.2m) and increased customer support, offset by COVID travel and marketing savings
- Adjusted EBITDA up 220% to £29.3m (HY20: £9.1m)
- Tax £4.3m: Underlying tax rate 16.7%
 - Moving closer to UK headline rate as Group moves to RDEC tax basis

Balance Sheet

	HY21	HY20	FY20
	£m	£m	£m
Intangible assets	47.4	59.1	48.2
Tangible assets	3.8	4.2	4.1
Total non current assets	51.2	63.3	52.3
Inventories	15.9	18.6	19.4
Debtors and other investments	18.2	19.3	18.0
Cash	18.8	12.8	15.0
Total current assets	52.9	50.7	52.4
Total assets	104.1	114.0	104.7
Capital and reserves			
Share capital and other reserves	1.6	2.5	1.6
Retained earnings	73.7	52.5	55.3
Total Equity	75.3	55.0	56.9
Current liabilities	20.5	18.2	26.0
Non current liabilities	8.3	40.8	21.8
Total liabilities	28.8	59.0	47.8
Total equity and liabilities	104.1	114.0	104.7

- Intangible fixed assets:
 - £39.7m of intangibles + £7.9m goodwill
 - Ongoing capitalisation of R&D of £2.6m
- Working capital 7.7% of revenue (historic levels of 20% which we expect to return to)
 - Inventories still low at the period end
 - Debtors down slightly despite higher revenue (HY20:£19.3m). Good payment performance.
 - Current liabilities £20.5m (HY20: £18.2m)
 - Includes tax liability of £3.4m (HY20: £0.6m)
- Non-current liabilities £8.3m (HY20 £40.8m)
 - Includes deferred tax on acquisition of £6.4m
 - Bank loan fully repaid (HY20 £32.6m)

Cash flow

	HY21	HY20	FY20
	£m	£m	£m
Adjusted EBITDA	29.3	9.1	28.6
Movement in working capital	(4.1)	(0.1)	12.3
Operating cash flow	25.2	9.0	40.9
FX movement	(0.7)	(0.1)	(0.3)
Interest paid	(0.1)	(0.2)	(0.5)
Tax paid	(2.8)	(0.8)	(3.5)
Net cash from operating activities	21.5	7.9	36.6
Investing	(3.7)	(41.2)	(44.9)
Payment of right-of-use leases	(0.3)	-	(0.9)
Bank loan	(12.0)	32.7	12.0
Loan arrangement fee	-	-	(0.4)
Free cash flow	5.5	(0.6)	2.4
Dividends	(1.7)	(1.5)	(2.3)
Net change in cash	3.8	(2.1)	0.1
Opening cash	15.0	14.9	14.9
Closing cash net of overdraft	18.8	12.8	15.0
Free cash flow	5.5	(0.6)	2.4
Acquisition of subsidiary (net of cash acquired)	-	35.3	35.3
Bank Loan	(12.0)	(32.6)	(11.6)
Non-underlying items	-	2.3	2.1
Underlying free cash flow	17.5	4.4	28.2

- Underlying free cash flow £17.5m 18.4% of revenue
 - Long term average 10-12%
- Net outflow on working capital of £4.1m (HY20 £0.1m)
 - Stocks low due to increased demand
 - Debtor and creditor payment cycles reducing to ensure supply
- Investing £3.7m, (HY20: £41.2m)
 - Acquisition of Martin in PY £35.3m
 - Capitalised R&D £2.6m (HY20: £2.6m)
- Closing net cash £19.1m (includes arrangement fee of £0.3m), £3.3m at close of FY20
 - HSBC/NatWest revolving credit facility (RCF) of £40m until December 2024
 - No draw down on RCF

ESG: Our approach to sustainability



The Malawi chapter of Beats by Girlz is off to a flying start receiving Launchpad Pro and Scarlett 2i2 earlier this year

Our planet

- Green Team working with external advisers to help us become sustainability leaders in our sector
- Committed to improving longevity and carbon footprint of our products
- Developing roadmap for TCFD compliance

Our People

- Commitment to diversity and inclusion, with global employee groups working together
- Well-being support offered throughout COVID lockdowns with testing in place at all facilities

Our partners

- Social and environmental responsibility is a key factor in choice of contract manufacturers
- Working with education partners to use technology to increase access to music

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 for 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.

Outlook

- Customer base has materially grown
 - High demand of home based audio recording solutions and ongoing digitisation accelerated by COVID
 - Uncertainty remains over the short term impact of easing lockdown restrictions
 - Strong pipeline for Martin as live events are now being planned
- Component supply issues provide challenges
 - We are working closely with suppliers to navigate this
- We remain optimistic for the future prospects and are excited to showcase our two new brands

Focusrite Plc

Additional Information

April 2021

Customers and markets

New Creator

Market size: £400-£450m

- 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

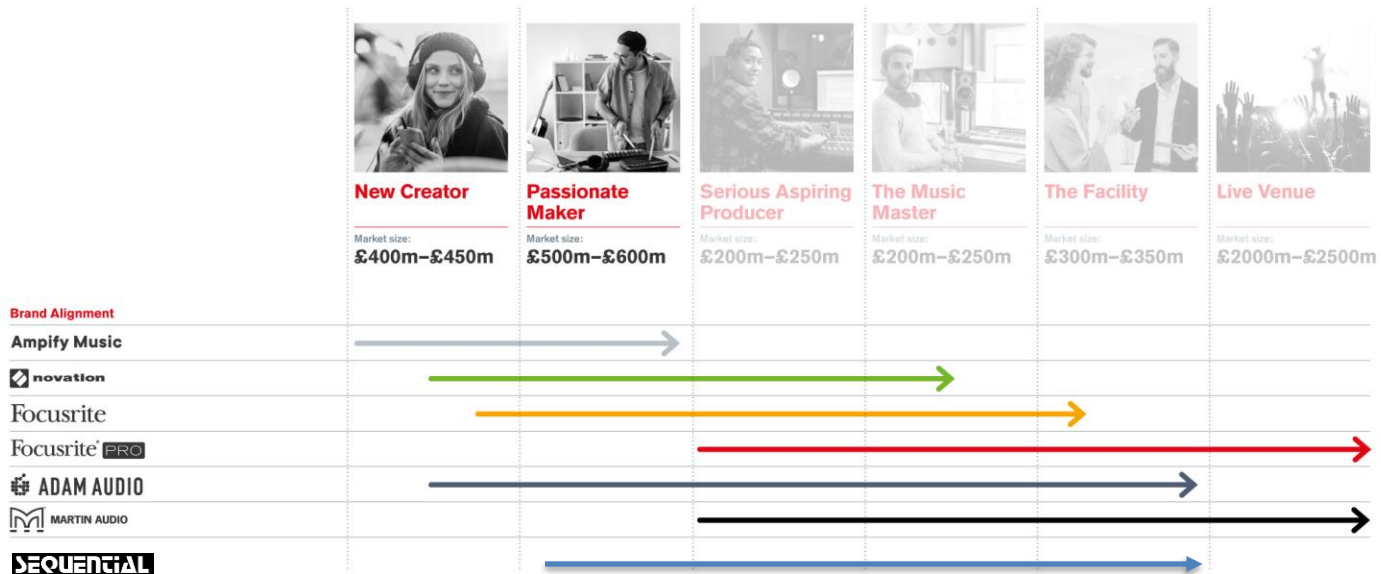
Gateway brands: Novation, Focusrite, ADAM Audio

Passionate Maker

Market size: £500-£600m

- 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, Sequential



Customers and markets

Serious Aspiring Producer

Market size: £200-£250m

- 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, Focusrite Pro, ADAM Audio, Martin Audio, Sequential

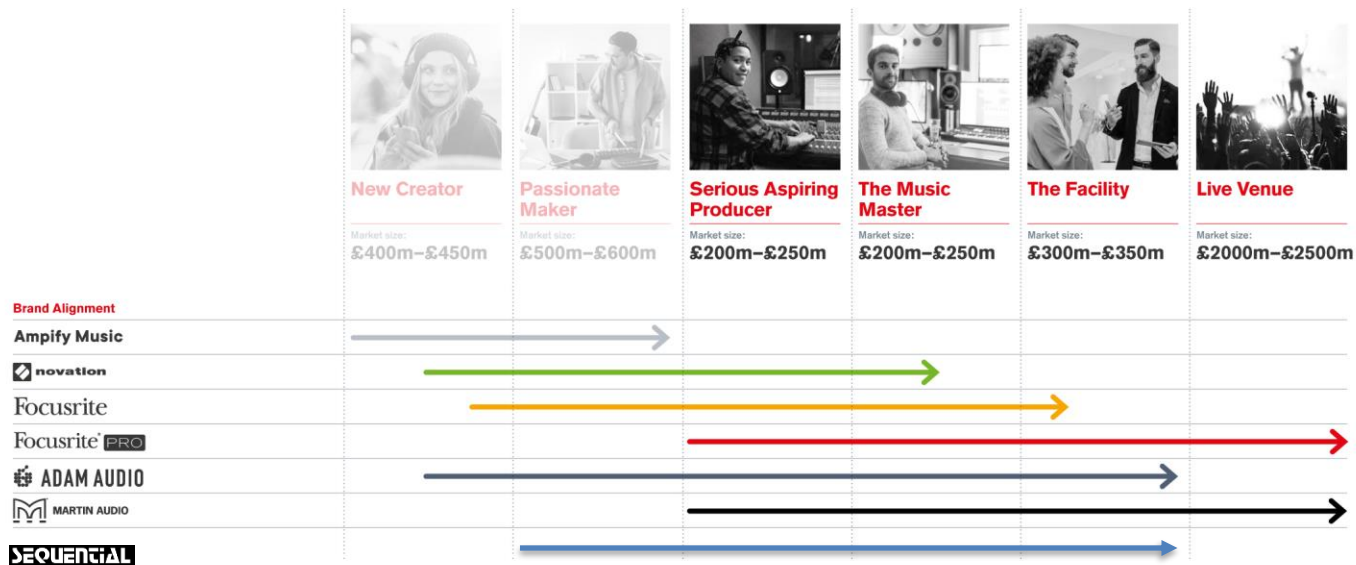
The Master/Facility

Market size: £500-£600m

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

Aligned brands: Focusrite, Focusrite Pro, ADAM Audio, Martin Audio, Sequential

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: Novation

including Ampify



CONTROLLERS

Physical interfaces to control music creation software

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

Keyboard controllers: **Launchkey - \$100 to \$250.**



STANDALONE

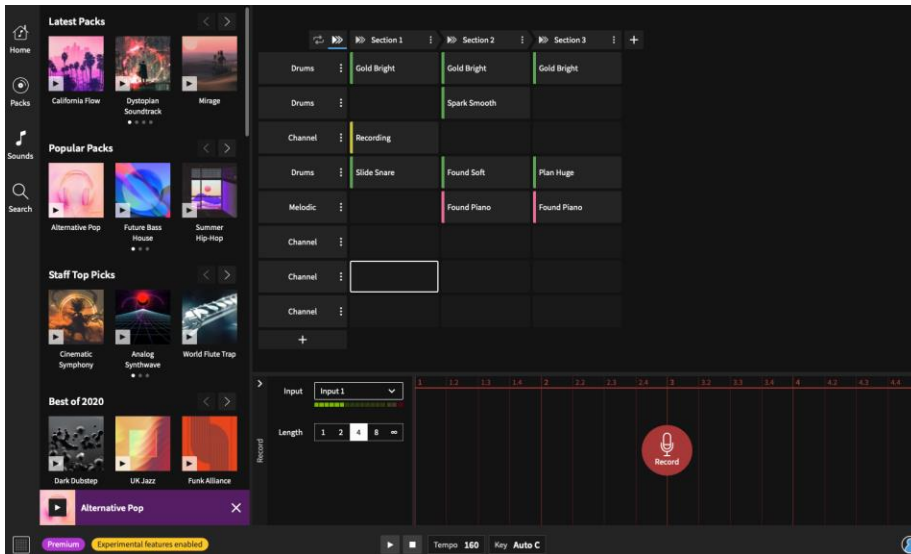
Function on their own as sound generating devices

Grid: **Circuit Tracks - \$399**

Synthesizers: **\$399- \$2199**



Product sectors: Ampify



Ampify Studio :

Powerful cross platform music creation app

Make music in minutes.

Create ideas easily and start building arrangements in a few clicks.

Free to download w limited content

Advanced features and use of entire Ampify Sounds library available with monthly subscription



*Launchpad iOS, Groovebox, Blockswave:
iOS apps that allow creation of music on
iPhones/iPads*

Freemium iOS apps and add-on packs starting
from **\$1**

Product sectors: ADAM Audio



T Series

Entry level studio monitor:
\$400-\$500 per pair



AX Series

Mid level studio monitor:
\$700-\$2,000 per pair



S Series

High end studio monitor:
\$1,750-\$20,000 per unit



Subwoofers

\$700-\$8,000 per unit



Headphones

SP-5 headphones: **\$500**



Product sectors: Martin Audio



ADORN



Small Sound Systems

For up to 250 people. From \$500

TH Series



Medium Format Systems

From 250-1500 people: prices from \$2,000



Large Format Systems

From 1500 to 10,000+ people. Prices from \$40,000

Customers and markets: Live venues

Market size: £2,000m – £2,500m



Hospitality: Cafes, bars, restaurants and hotels such as Caesar's, W and Marriot.



Worship: From 50 seat chapels to 10,000 seat mega churches, including Westminster Abbey and Calvary Church.



Auditoria: Education and conference spaces like George Washington or Oslo's Aula - Nobel lecture theatre.



Live Events: Concerts, festivals, theatre, corporate showcases: The Killers, Glastonbury Jesus Christ Superstar, Apple.



Nightclubs: From Beijing, London to LA, nightclubs of all sizes, including Ministry of Sound.

Foreign exchange

Exchange rates	HY21	HY20	FY20
Average			
US\$:£	1.36	1.28	1.27
€:£	1.14	1.16	1.14
Average rate of forward contracts			
€:£	1.11	1.10	1.11
Weighted average applicable rate			
US\$:£	1.33	1.28	1.27
€:£	1.11	1.13	1.12
Year end rate			
US\$:£	1.39	1.28	1.34
€:£	1.15	1.16	1.12

- Average US\$ weakened by 6%.
 - US and ROW. Total c60% of revenue but almost all cost of sales so minor net profit inflow.
- Average reported € little changed.
 - c75% of major Euro flows hedged.
 - Therefore average blended € rate weakened by 1%.

Organic Constant Currency (OCC) Growth

Exchange rates	Half Year Ended 29 February 2020				HY21 Revenue	Revenue Growth %	Organic Growth %
	Revenue	Exchange	Acquisition	As Adjusted			
FAEL	38.4	(0.8)	-	37.6	74.0	92.7%	96.8%
ADAM Audio	7.0	-	-	7.0	12.6	80.0%	80.0%
Martin Audio	4.5	-	8.9	13.4	8.7	93.3%	(35.1)%
Total	49.9	(0.8)	8.9	58.0	95.3	90.9%	64.3%

- Constant exchange rate organic revenue growth, ignoring the impact of acquisition and changing exchange rates, is 63.4%.
- FAEL most impacted by changing exchange rates in half year. 96.8% OCC growth.
- Martin Audio is now included for a full six months, compared to two months in HY20. Contributed growth to the Group, but overall reduction in revenue compared to previous half year.

Number of shares

Shares	HY21	HY20	FY20
Shares in issue	58,661,639	58,111,639	58,111,639
Less shares held by EBT	-528,916	-383,114	-359,483
Weighting through period	-55,440	-191,535	-72,437
Weighted average shares for EPS	58,077,283	57,536,990	57,679,719

- Shares in issue currently 58,661,639
- But required to deduct EBT shares for EPS calculation

Share options	HY21	HY20	FY20
Directors	450,846	472,287	352,614
Staff	1,072,701	1,240,911	1,360,584
Total options o/s at start of period	1,523,547	1,713,198	1,713,198
New options issued	102,311	136,238	318,026
Options exercised	-332,585	-398,751	-409,418
Options cancelled	-11,841	-78,387	-98,259
Total options o/s at end of period	1,281,432	1,372,298	1,523,547
Less shares held by EBT	-528,916	-383,114	-359,483
Potential dilution	752,516	989,184	1,164,064

- 1.3m options in issue
- Max potential dilution of 0.8m shares

Earnings per share

Earnings per share	HY21	HY20	Movement	FY20
	p	p		p
Basic	33.2	3.6	831%	7.1
Diluted	32.7	3.5	828%	7.0
Adjusted basic	36.9	9.4	291%	33.2
Adjusted diluted	36.3	9.3	290%	32.8

Earnings per share	Movement
Increase in Adjusted EBITDA	219.9%
Effect of change in dep'n and amort'n	107.5%
Effect of change in net finance charges	8.6%
Effect of change in tax charge	(41.4)%
Effect of change in weighted average number of shares	(4.3)%
Increase in adjusted diluted EPS	290.3%

Increase in EPS higher than increase in Adjusted EBITDA

- Capital investment, therefore depreciation, not in line with revenue growth
- Higher tax charge due to move to RDEC scheme

Focusrite Plc

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