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Focusrite plc ("Focusrite" or "the Group")
Half year results for the period ended 29 February 2020

Focusrite plc, the global audio products group of companies, today announces its half year results for the six months ended 29 February 2020.

Key financial metrics

	HY20	HY19
Revenue (£ million)	49.9	40.4
Adjusted EBITDA[2] (£ million)	9.1	8.9
Adjusted[3] operating profit (£ million)	6.4	7.3
Adjusted[3] diluted earnings per share (p)	9.3	11.0
Interim dividend per share (p)	-	1.2
Net (debt) cash (£ million)	(19.9)	26.2
Statutory results		
Operating profit (£ million)	3.0	7.3
Basic earnings per share (p)	3.6	11.1

Highlights

- Group revenue up by 23.5% to £49.9 million (25.3% at constant currency[1]) (HY19: £40.4 million)
- Acquisition of Martin Audio in December 2019 for £39.6 million
- Integration of ADAM Audio progressing well and contributing to both revenue growth and profits
- Consumer demand remained strong across the Focusrite and Novation ranges although revenue down slightly like for like in the period due to the initial impact of COVID-19 in China
- Gross margin improved to 46.1% (FY19: 44.3%)
- EBITDA[2] up by 2.9% to £9.1 million (HY19: £8.9 million)
- Net debt of £19.9 million having bought Martin Audio for £39.6 million (FY19: net cash £14.9 million, HY19: net cash £26.2 million)
- Interim dividend decision deferred in view of the uncertainty caused by COVID-19

Tim Carroll, Chief Executive Officer, commented:
"We are delighted to have acquired Martin Audio in December 2019, adding another complementary high quality business, following on the heels of our acquisition of ADAM Audio in July 2019. That was closely followed by the COVID-19 pandemic. We have managed the challenges well and I salute the whole team. As a result of their agile management of the situation, the impact of supply chain issues as a result of COVID-19 was limited to approximately £2 million of revenue in February 2020.

Since the half year, consumer demand for Focusrite and ADAM Audio products has been high especially via ecommerce and we have seen record levels of product registrations at Focusrite indicating positive sell-through to end-users. 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. Demand for Martin Audio products is being affected by the lack of live music events due to COVID-19 but we believe this will recover in time. 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. However, for the time being we must remain appropriately cautious given the unprecedented circumstances in which we all find ourselves."*

[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. This is shown on the face of the income statement.
[3] Adjusted for non-underlying items which comprise costs relating to acquisition (£1.8m), amortisation of acquired intangibles (£1.2m), and other costs (£0.4m).

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The information communicated in this announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) No. 596/2014.

Notes to Editors

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. The Focusrite Group trades under six established brands: Focusrite, Focusrite Pro, Novation, Ampify, ADAM Audio and Martin Audio.

With a high-quality reputation and a rich heritage spanning decades, its brands are category leaders in the music-making and audio recording industries. Focusrite and Focusrite Pro offer audio interfaces and other products for recording musicians, producers and professional audio facilities. Novation and Ampify products are used in the creation of electronic music, from synthesisers and grooveboxes to industry-shaping controllers and inspirational music-making apps. ADAM Audio studio monitors have earned a worldwide reputation based on technological innovation in the field of studio loudspeaker technology. Martin Audio designs and manufactures performance-ready systems across the spectrum of sound reinforcement applications.

The Focusrite Group has a global customer base with a distribution network covering approximately 160 territories. Both Focusrite and Martin Audio are headquartered in High Wycombe, UK, with marketing offices in Los Angeles and Hong Kong. ADAM Audio has offices in Berlin, Nashville and Dongguan, China.

Focusrite plc is traded on the AIM market, London Stock Exchange.

Business and operating review

Overview

We are pleased to share with you our financial results and summary of operations for the first half of our financial year ending 31 August 2020. This year has been an incredibly busy time for the Group as we launched a number of new products; began the integration of ADAM Audio which was acquired in July 2019; and completed our second acquisition, Martin Audio, in December 2019. The Group has continued to grow on many of its key metrics: including revenue, EBITDA, product portfolio and customer base. Through all of this, we remain focused delivering on our mission of ’Removing Barriers to Creativity‘. Indeed, it was paramount for both acquired companies to have this in their DNA as well. Our customers, spread widely across beginners, enthusiasts, aspiring pros, and enterprise facilities and professionals, depend on the Focusrite Group to deliver solutions that allow them to realise top-quality results from all the amazing capabilities that our technology offers. We strive to deliver this with our focus on ease of use and a deep understanding of our customers’ needs.

COVID-19

All three principle business units and subsidiary operations are operating successfully with the majority of employees working at home. That said, the Group’s ADAM Audio and Martin Audio facilities that assemble the larger, higher priced products of each brand remain operational under safe-working mandates. All other manufacturing, of all brands, is outsourced to third parties in China or Malaysia. Of these, the Chinese manufacturers have now restored their output to near pre-COVID levels, while Malaysia is currently moving out of lockdown. Logistics including warehousing in multiple locations, is also outsourced. This is our well-established business model which, to date, has enabled the companies in the Group to continue their operations successfully during the crisis.

While traditional retail stores are closed in many countries the online retail industry is fulfilling the demand so successfully that we are seeing record levels of product registrations at Focusrite, indicating positive sell-through to end-users. On the other hand, demand for Martin Audio products is being affected by the lack of live music events due to COVID-19 although we believe this will recover in time. 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.

Operating review

Our Group now comprises six powerful brands across three business units: Focusrite, Focusrite Pro, Novation, Ampify, which make up the Focusrite Audio Engineering (‘FAEL’) business unit, ADAM Audio and Martin Audio.

	Six months to 29 February 2020 £'000	Six months to 28 February 2019 £'000	Year to 31 August 2019 £'000
Revenue from external customers			
Focusrite	**25,574**	26,308	57,644
Focusrite Pro	**1,884**	2,594	4,704
Novation	**9,935**	9,827	17,719
ADAM Audio	**7,041**	–	1,750
Martin Audio	**4,526**	–	–
Distribution	**966**	1,696	2,848

Total	**49,926**	40,425	84,665

Focusrite Audio Engineering Ltd (‘FAEL’)

Within FAEL, Focusrite, comprising our market-leading Scarlett audio interfaces and mid-range Clarett interfaces, was flat year on year. The first three months were spent clearing our inventory and channel inventory of the older generation Scarlett product, which had some impact on re-orders for the new generation Scarlett. However, total end-user registrations were significantly up year on year with both versions selling in the channel for a period of time and this has continued as the older generation stock has been phased out. Additionally, net promoter scores (‘NPS’) are also up as we have greatly improved the customer onboarding journey to get users up and running with the product quickly.

Focusrite Pro, comprising our Red and RedNet solutions, had a difficult first half, coming in 27% down versus prior year. Part of this is due to a number of product releases, which were originally scheduled for the first half, being pushed out to the second half. Additionally, we have restructured the team to ensure we are more tightly aligned with the different verticals we want to pursue namely broadcast, education, installed sound and post production.

Novation revenue was up 1% year on year, mainly driven by the introduction of new Launchpads and the first of a new generation of Launchkeys. Just like the new Focusrite Scarlett interfaces, all the new Launch products have a new and enhanced ‘out of the box’ and onboarding journey to get both new users and professionals alike up and running quickly. This improved ‘out of the box’ experience has resulted in higher NPS scores for the Novation brand as well.

Ampify has continued to update and enhance our world-class iOS music creation apps and, in addition, has just debuted our first cross platform Mac/Windows music creation software and content label, Ampify Studio and Ampify Sounds. Both releases will be well integrated into the onboarding journey for both Focusrite and Novation customers and are an important component of our growth strategy focused on customer lifetime value.

Additionally, following the acquisition of ADAM Audio, the Group will cease distributing third-party brands by the end of August 2020. Performance on these units has been poor and resulted in a drag on our overall business.

ADAM Audio GmbH

Our ADAM Audio brand prides itself by offering a comprehensive portfolio of high precision studio monitors. Our AX and S Series monitors are chosen by some of the most discerning ears in the industry as their go-to monitors for recording and mixing the biggest titles in music and film. The T Series, bringing ADAM sonic performance to a price point for home studio and aspiring professionals, continues to gain share in the music instrument (‘MI’) retail space.

The integration of ADAM has progressed well and performance for the first half is in line with our expectations and approximately 13% up over its prior year. Numerous initiatives across sales and marketing, engineering and operations are in play to bring the scale of the entire Group to bear and maximise our opportunities with consolidation and cross-selling. The Group has already had some early wins in terms of consolidating distribution in various markets which are partially responsible for the year-on-year growth.

Martin Audio Ltd

Martin Audio, our latest acquisition, was completed on 30 December 2019. The business rallies around the central theme of ’Unite Your Audience‘, offering a wealth of solutions for the live/tour sound and installed sound market. Martin has a robust product roadmap that even in the first few months of trade has resulted in extensions to their award-winning Adorn and X Series portfolio, as well as a number of new products specifically for the Chinese market. In the two months Martin has been with the Group, revenue has been up 22% year on year within the period and 11% ahead of budget. The majority of the increase is in the point-source solutions and subwoofers. Point-source solutions are primarily used for monitoring live bands, DJs, corporate events and installations in dance clubs, ballrooms and performing arts centres.

Group summary

As a whole, the Group achieved revenue of £49.9 million for the first half, up from £40.4 million for the first half last year, including a full six months of ADAM Audio and two months of Martin Audio. Gross margin increased to 46.1% from 44.3% last half. Resulting EBITDA was £9.1 million compared to £8.9 million last year; the prior year was flattered by a one-off £700,000 increase from tariff-induced price increases in the US.

Research and development remains a cornerstone of our Group's strategy. In this period, we had a number of new products come to market, including the third generation of Novation Launchpads, the first of a new series of Launchkeys, extensions to the Martin Audio Adorn and X Series, and a host of software and hardware upgrades across many of the product groups. The second half has a number of new products and product transitions as well; some have been slightly impacted by COVID-19 but are still on track for release before the year end.

Regional review

	Six months to 29 February 2020 £'000	Six months to 28 February 2019 £'000	Year to 31 August 2019 £'000
Europe, Middle East and Africa ('EMEA')	**23,115**	**19,315**	34,033
North America	**18,094**	**14,963**	36,345
Rest of World ('ROW')	**8,717**	**6,147**	14,287
Total	**49,926**	**40,425**	84,665

EMEA

EMEA represented 46% of the Group's revenue for the first half. For FAEL (comprising the Focusrite, Focusrite Pro, Novation and Ampify brands), the region was down 4.2% year on year. Two primary factors made up the majority of the impact. First, distribution changes: our Scandinavian distributor ceased trading, resulting in a loss of business for approximately two months as we searched for and successfully brought online a new distributor. Additionally, our Italian distributor was purchased by a large company that resulted in approximately a two-month lapse in orders while they completed their transaction. Second, we had a tough comparative period as in February 2019, many European distributors opted to take on more stock in anticipation of potential Brexit issues. Business has settled down from these occurrences and we are watching closely to see what the short and mid-term impacts could be from COVID-19. For ADAM and Martin, the first half was roughly on plan, with both showing double digit revenue growth year-on-year. For now, demand for the Group's products has remained strong, with increased levels of sales of FAEL and ADAM solutions through more e-commerce focused resellers and the same for Martin's installed sound solutions.

North America

North America is an important region for the Group and during the first half, contributed 36% to the Group's total revenue. Our North American operations have expanded with the acquisition of ADAM and Martin. Both these brands utilise the same third party logistics provider ('3PL') and have in-field demand generation groups comprising sales, marketing, operations and support. FAEL sells product to a North American distributor which then supplies the dealers. FAEL also employs a local team of specialists whose aim is to stimulate consumer demand.

Both FAEL and ADAM products are sold through a very similar sales channel, with almost entire overlap. Martin Audio's North America business is transacted through a mix of live/tour sound rental companies, system integrators and direct to end-users. FAEL revenue in North America was down 3.5% for the first half. When factoring in the one-off gain realised last year from the tariff price actions, FAEL was roughly flat year on year. ADAM's performance was up 14% year on year, with a continued adoption of the lower price T Series as well as continued growth in the upper end AX series monitors. Martin Audio's North America business for the two months since acquisition was up 17%, driven by increases in fixed installations.

ROW

ROW comprises Asia and South America. ROW contributed 18% to the Group's total revenue for the first half. For FAEL, Asia was down by 7% compared with HY19. This was driven partially by bringing in a new management team for the region in mid-January 2020 and partially due to COVID-19 issues across China during February 2020, which resulted in very weak sales in China for the month. Latin America, with the team located in Mexico and Brazil, had a very positive result for the first half, up 48% year on year. The management team has done an excellent job of renewing distribution contracts in key markets and focusing on localised support and marketing tools for the various countries. ADAM Audio's result in ROW for the half year was up 26% year on year, comprising an increase of 6% in Latin America and 31% across Asia. Part of the increase in Asia was achieved by consolidating distribution across FAEL and ADAM in a few key markets. Martin Audio's ROW revenue was up 30% year on year, driven primarily in Asia and from bringing on board a sales and marketing team focused on the Asian market with localised marketing and demand generation.

Financial review

Overview

Since February 2019, the Group has acquired both ADAM Audio and Martin Audio. These have made a major contribution to the strong revenue growth of 23.5% over HY20. Within other areas of the income statement, the picture is more complex and it is set out below.

Income statement

	HY20 £m Adjusted	**HY20 £m Non-underlying**	**HY20 £m Reported**	HY19 £m Adjusted	HY19 £m Non-underlying	HY19 £m Reported
Revenue	**49.9**	**-**	**49.9**	40.4	-	40.4
Cost of sales	**(26.9)**	**-**	**(26.9)**	(22.5)	-	(22.5)
Gross profit	**23.0**	**-**	**23.0**	17.9	-	17.9
Administrative expenses	**(16.6)**	**(3.4)**	**(20.0)**	(10.6)	-	(10.6)
Operating profit	**6.4**	**(3.4)**	**3.0**	7.3	-	7.3
Net finance income	**(0.3)**	**-**	**(0.3)**	(0.1)	-	(0.1)
Profit before tax	**6.1**	**(3.4)**	**2.7**	7.2	-	7.2
Income tax expense	**(0.7)**	**-**	**(0.7)**	(0.8)	-	(0.8)
Profit for the period	**5.4**	**(3.4)**	**2.0**	6.4	-	6.4

	HY20 £m Adjusted	**HY20 £m Non-underlying**	**HY20 £m Reported**	HY19 £m Adjusted	HY19 £m Non-underlying	HY19 £m Reported
Operating profit	**6.4**	**(3.4)** [4]	**3.0**	7.3	-	7.3
Add – amortisation of intangible assets	**2.0**	**1.2**	**3.2**	1.2	-	1.2

Add – depreciation of tangible assets	**0.7**	**-**	**0.7**	0.4	-	0.4
EBITDA	**9.1**	**(2.2)**	**6.9**	8.9	-	8.9

[4] Non-underlying items set out in Note 5 of the Interim Statements

Revenue

Revenue for the Group grew 23.5% to £49.9 million (HY19: £40.4 million). Within this total, ADAM Audio contributed £7.0 million over the whole six-month period (HY19: £nil) and Martin Audio contributed £4.5 million in the period from acquisition on 30 December 2019 to 29 February 2020 (HY19: £nil). Therefore, the underlying business that was Focusrite plc last year had revenue of £38.4 million (HY19: £40.4 million). Despite this decline of 5.1%, the Board was very pleased with this result. The first half of last year benefited from the one-off advantage of a selling price increase in the US, generating a revenue (and profit) of approximately £0.7 million. The comparative period also had a revenue boost due to customers in continental Europe buying more to protect themselves against possible Brexit upheaval. Both of these were discussed last year. This year, the initial supply chain issues in China caused by COVID-19 delayed the delivery of approximately £2 million of orders.

In general, GBP was stronger in HY20 than in HY19. The Euro weakened and the average exchange rate moved from €1.13 in HY19 to €1.16 in HY20. The USD was broadly similar to last year at $1.28 (HY19: $1.29). The effect of the Euro movement is to reduce the revenue for HY20 relative to HY19. However, at the profit level the Euro is largely mitigated by the Group's hedging policy (approximately 75% of Euro exposure is hedged in the current financial year and approximately 50% is hedged in the following financial year) and the USD is mitigated by the purchases of stock in USD from the manufacturers in China and Malaysia.

Segment profit

Segment profit is disclosed in more detail in the note to the accounts named, 'Business Segments'. In FY19, the segments consisted of Focusrite, Focusrite Pro, Novation, Distribution and ADAM Audio. With the addition of Martin Audio, the Group will now have three major operating companies, six brands and have six business segments. With the two acquisitions, the management of the Group is evolving towards an operating company basis. Therefore, the Board will reconsider the reporting segments at the year end. The revenue is compared with the directly attributable costs to create a segment profit.

Gross profit

In HY19, the gross margin was 44.3%, helped by the boost from the pricing increase in the US. Excluding that, the underlying gross margin was approximately 43.3%. By contrast, in HY20, the gross margin grew to 46.1%. This is a useful increase as a result of several important factors. These include certain cases where the specification of a new product was substantially greater than its predecessor allowing the selling price to be increased. Additionally, US import duties were mitigated partially and royalties were reduced. Finally, the mix of business moved towards higher margin products with the arrival of the higher margin ADAM and Martin businesses together with the decline of the lower margin Distribution segment.

Administrative expenses

Administrative expenses consist of sales, marketing, operations, the uncapitalised element of research and development, and central functions such as legal, finance and the Group Board. These expenses were £20.0 million, up from £10.7 million last year. Within the total for HY20, there were non-underlying expenses of £2.3 million, relating largely to the acquisition costs for the purchase of Martin Audio. In addition, there was amortisation relating to acquired intangible assets totalling £1.2 million. Excluding these non-underlying costs, the operating costs were £16.6 million, of which £4.2 million were incurred by ADAM Audio and Martin Audio. Within the Focusrite business, marketing costs were increased by the greatest proportion with particular focus on online marketing via Google and Facebook as well as face-to-face marketing via the pop-up store in London prior to Christmas and the continued importance of the largest trade shows. The Board supports the continued investment in marketing whilst guiding the business to manage the costs tightly and in trying to get the biggest benefit when deciding how to invest the money.

Adjusted EBITDA

Adjusted EBITDA is a non-GAAP measure but it is widely recognised in the financial markets as a proxy for the ongoing trading performance of the business. It is also used within the Group as the basis for some of the incentivisation of senior management at both the operating company level and the Group level. EBITDA increased from £8.9 million in HY19 to £9.1 million in HY20, an increase of 2.9%. This increase includes £0.4m of rental costs that, due to adoption of IFRS 16, have been accounted for as depreciation rather than administrative expense. The other major metric used for the incentivisation of management is cash generation (measured as free cash flow as a percentage of revenue). This is discussed later.

Depreciation and amortisation

Depreciation is charged on tangible fixed assets on a straight-line basis over the assets' estimated useful lives, normally ranging between two and five years. Additionally, with the adoption of IFRS 16, this now includes the depreciation of leases brought onto the balance sheet.

Amortisation is mainly charged on capitalised development costs, writing off the development cost over the life of the resultant product. It has always been intended that the costs are capitalised prudently and amortised sensibly, with all development costs relating to an individual product written off over a period up to three years for Focusrite and Novation, up to eight years for ADAM Audio and up to eleven years for Martin Audio, reflecting the different lifespans of the products.

Following the purchase of Martin Audio, the Group commissioned PwC to carry out the purchase price allocation to evaluate the relative value and useful lives of intangible assets such as brand, developed products, products in development, patents and goodwill. The results of this initial assessment were that the brand was valued at £6.8 million and is assumed to be amortised over 20 years; developed products and related patents are being amortised over eight years and products in development and associated patents are being amortised over eleven years, reflecting the longer marketable life of these products. Goodwill is not amortised unless there is a permanent diminution in value. The amortisation of the acquired intangible assets for both ADAM Audio and Martin Audio totalled £1.2 million during the period (HY19: £nil) and has been disclosed within non-underlying costs.

Within the Focusrite business, £2.1 million of development costs were capitalised (HY19: £1.8 million) and the amortisation of capitalised development costs was £1.5 million (HY19: £1.0 million).

Non-underlying items

In HY20, the Group acquired Martin Audio and the costs associated with the acquisition were £1.8 million. In addition, the Group made a number of changes to the senior employees which contributed to additional non-underlying costs of approximately £0.4 million. These were generally employment costs relating to gardening leave periods. Finally, the non-underlying costs included amortisation on acquired intangible assets totalling £1.2 million.

Foreign exchange and hedging

The exchange rates have been more consistent in the last financial year.

Exchange rates	**HY20**	HY19	FY19
Average			
USD:GBP	**1.28**	1.29	1.29
EUR:GBP	**1.16**	1.13	1.13
Period end			

USD:GBP	**1.28**	1.33	1.22
EUR:GBP	**1.16**	1.17	1.11

The average USD rate has been broadly unchanged at $1.28:£1.00 for HY20 (HY19: $1.29). The USD accounts for over half of Group revenue but nearly all of the cost of sales so there is a useful natural hedge.

As the Euro comprises approximately a quarter of revenue but little cost, the weaker Euro (stronger GBP) is unhelpful. That said, the Group enters into forward contracts to convert Euro to GBP. The policy adopted by the Group is to hedge approximately 75% of the Euro flows for the current financial year (year ending August 2020) and approximately 50% of the Euro flows for the following financial year (FY21).

In HY19, approximately three-quarters of Euro flows were hedged at €1.10, and the average transaction rate was €1.13, thereby creating a blended exchange rate of approximately €1.11. In HY20, the equivalent hedging contracts were at €1.12, versus the transactional rate of €1.16 and so creating a blended exchange rate of €1.13.

Hedge accounting is used, meaning that the hedging contracts have been matched to income flows and, providing the hedging contracts remain effective, movements in fair value are shown in a hedging reserve in the balance sheet, until the hedge transaction occurs.

Corporation tax
Historically, the effective corporation tax rate as a proportion of profit before tax has been in the range 10-12%. In HY19, it was 11.0%. By contrast, in HY20 the effective tax rate is 23.8%. The reason for this is that the non-underlying costs are assumed not to be allowable for corporation tax. Excluding these costs, the effective tax rate would be 10.5%. Most of the Group's profits are taxed in the UK, where the headline rate is 19%. The effective tax rate is lower than this headline rate, due largely to enhanced tax relief on development costs. As the Group grows, it will move from the Small or Medium-sized Enterprise regime ('SME') for the treatment of R&D costs to the Research and Development Expenditure Credit regime ('RDEC') which is markedly less beneficial. Therefore, it is expected that the effective tax rate will increase in the coming years.

Earnings per share ('EPS')
The basic EPS for the year was 3.6 pence, down 68% from 11.1 pence in HY19. This decline has largely followed the decline in reported profit after tax and the large non-underlying costs incurred in HY20. The weighted average number of shares used for the calculation has increased compared to the prior year at 57,537,000 shares (HY19: 57,222,000 shares). The more comparable measure, excluding non-underlying items and including the dilutive effect of share options, is the adjusted diluted EPS. This declined to 9.3 pence, from 11.0 pence in HY19.

	HY20 Pence	HY19 Pence	FY19 Pence
Basic	**3.6**	11.1	20.4
Diluted	**3.5**	11.0	20.1
Adjusted basic	**9.4**	11.1	21.7
Adjusted diluted	**9.3**	11.0	21.4

Balance sheet

	HY20 £m	HY19 £m	FY19 £m
Non-current assets	**63.3**	7.9	25.7
Current assets			

Inventories	**18.6**	12.3	15.2
Trade and other receivables	**19.3**	13.1	18.2
Cash	**12.8**	26.2	15.5
Current liabilities			
Bank loan or overdraft	**-**	-	(0.6)
Other current liabilities	**(18.2)**	(9.4)	(16.3)
Non-current liabilities			
Bank loan or overdraft	**(32.7)**	-	-
Other non-current liabilities	**(8.1)**	(0.8)	(4.3)
Net assets	**55.0**	49.3	53.4

Non-current assets

The non-current assets comprise: goodwill; brands, patents and capitalised development costs; property, plant and equipment; and software. The goodwill totals £17.6 million (HY19: £0.4 million). This comprises Martin Audio £12.3 million, ADAM Audio £4.9 million and Novation £0.4 million. In both Martin Audio and ADAM Audio, the goodwill represented approximately 30% of the acquisition cost.

The brands were valued at £14.3 million (HY19: nil). This comprises Martin Audio £6.8 million, which is to be amortised over 20 years, and ADAM Audio £7.5 million, which is to be amortised over ten years.

The capitalised development costs comprise acquired developments in relation to both completed products and products currently in development. The amortisation periods range from three years to eleven years depending on the expected life of the products. The shorter amortisation periods are more usual for Focusrite and Novation products and the longer periods for the ADAM Audio monitors and the Martin Audio live speakers. The capitalised development costs have a carrying value of £20.8 million (HY19: £5.4m).

Based on current trading and management base forecasts no impairments to the carrying value of the intangible assets have been deemed necessary as a consequence of COVID-19. This will be reassessed at the year-end for evidence of any permanent diminution in value.

Overall, the amortisation of the intangible assets totals £3.2 million (HY19: £1.2 million). This is split between amortisation of intangible assets acquired as part of the acquisition of either ADAM Audio in July 2019 or Martin Audio in December 2019 of £1.2 million (HY19: £nil), and other amortisation of £2.0 million (HY19: £1.2 million). The amortisation of acquired intangible assets has been treated as a non-underlying expense. The ongoing amortisation relates to the capitalised development costs credited to the income statement. The difference between ongoing amortisation and capitalised development costs is £0.6 million (HY19: £0.8 million).

Working capital

Working capital was 20.9% of revenue (HY19: 19.8%). This remains at an acceptable level but it has increased over the comparative period. This is largely due to the acquisition of Martin Audio. Within ADAM Audio, the working capital is low and the Board is considering how to use a modest investment in working capital to drive further revenue growth.

The management of stock and debtors remain a key focus across the Group. With stock the Board aims for a sensible balance that minimises stock value whilst maximising the ability to satisfy customer demand and with some degree of protection for unforeseen events. This has proved useful in the COVID-19 lock-downs. With debtors, the ambition is to get the customers to pay on time, i.e. according to the contractual terms that they have accepted when placing the order. Finally, we aim to pay suppliers on time.

Cash flow

	HY20	HY19	FY19
	£m	£m	£m
Free cash flow[5]	**(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

[5]Defined as net cash from operating activities less net cash used in investing activities.

The net debt balance at the period end was £19.9 million (HY19: Net cash of £26.2 million and FY19: £14.9 million). During the 12 months from February 2019 to February 2020, the Group acquired ADAM Audio for £16.1 million, Martin Audio for £35.3 million (net of acquired cash), and also incurred non-underlying costs totalling £2.3 million. As part of the acquisition of Martin Audio, the Group took a £40 million loan facility split evenly between HSBC and NatWest. The facility lasts for five years to December 2024.

Excluding these acquisitions and financing activities, such as issues of equity shares or equity dividends paid, the underlying free cash flow in HY20 was £4.4 million, which was 8.8% of revenue. In the comparative period, the free cash flow was £4.9 million which was 12.0% of revenue. Free cash flow as a percentage of revenue is a key performance measure within the Group: if the Group sells product, it is reasonable to assume that some of the revenue converts to profit which then converts to cash. This forms an important element of the incentivisation metrics of senior management across the Group.

Going concern

The Board of Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the interim statements have been prepared on a going concern basis.

The COVID-19 virus has caused upheaval worldwide with many businesses experiencing a significant decline in revenue. The Directors have prepared projected cash flow information (base case forecasts) for the period ending twelve months from the date of their approval of this interim statement. These projections did not take full account of the improvements the Group is experiencing as a result of the impact of COVID-19 (see below). On the basis of this cash flow information, the Directors consider that at the end of the 12-month period, the Group will have reduced its current net debt position from £19.9m (the Group's RCF facility of £40.0 million is due for renewal in December 2024). Throughout the period the forecast cash flow information indicates that the Group will comfortably comply with the leverage and interest cover covenants contained within the facility.

Management's view is that a severe yet plausible downside assumption against their base case forecasts is estimated to be a revenue shortfall of 30% for a 6-month period commencing May 2020. This model assumes that purchases of stock will, in time, reduce to reflect reduced sales and the Group will respond to the shortfall by taking reasonable steps to reduce overheads within its control. Even at that level, the Group would be expected to remain well within the terms of its loan facility with the leverage covenant (net debt to adjusted EBITDA) in the period not exceeding 1.0 compared to the maximum of 2.5. The Group's net debt position under this severe plausible downside scenario is still expected to improve at the end of the 12-month period.

In their sensitivity analyses, the Directors estimate that if the Group were to experience a shortfall in revenue of greater than 60% for six months, this could result in leverage beyond that permitted by the current facility by November 2020, despite consequential reductions in the purchases of stock and overheads. As an additional measure the Directors could also stop the dividend. However, the Directors view is that this scenario of a revenue shortfall of greater than 60% is not plausible.

In reality, the Group is currently experiencing record levels of consumer registrations and customer demand, partially as a result of the COVID-19 restrictions on people's movement, and therefore revenue growth has accelerated since the half year end. This is evidenced by improvements in the Group's net debt position which had reduced by £4 million to £16 million at 30 April 2020. Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the interim statements and therefore have prepared the interim statements on a going concern basis.

Chief Financial Officer

Following the announcement on 18 March that Jeremy Wilson has decided to leave the Company at the end of December, an executive search firm has been appointed to carry out a search for his successor. A further update on this process will be made as and when appropriate.

Dividend

Following this successful half year, the Board would normally expect to propose an interim dividend in line with its consistent dividend policy. However, in light of the highly unusual circumstances caused by the COVID-19 virus, and the uncertainty about future trading conditions this inevitably brings, the Board has decided that the prudent approach is to defer the declaration of a dividend until later in 2020.

Summary and outlook

"We are delighted to have acquired Martin Audio in December 2019, adding another high quality business, following the acquisition of ADAM Audio in July 2019. That was closely followed by the COVID-19 pandemic. We have managed the challenges well and I salute the whole team. As a result of their agile management of the situation, the impact of supply chain issues as a result of COVID-19 was limited to approximately £2 million of revenue in February 2020.

Since the half year, consumer demand for Focusrite and ADAM Audio products has been high especially via ecommerce and we have seen record levels of product registrations at Focusrite indicating positive sell-through to end-users. 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. Demand for Martin Audio products is being affected by the lack of live music events due to COVID-19 but we believe this will recover in time. 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. However, for the time being we must remain appropriately cautious given the unprecedented circumstances in which we all find ourselves."

Tim Carroll	**Jeremy Wilson**
Chief Executive Officer	**Chief Financial Officer**

Principal Risks and Uncertainties

In common with all businesses, the key area in which the Group currently faces risks is the impact of COVID-19. The Group focuses on the effective management of its risks in order to achieve its strategic objectives and secure the resilience of the business for the long term. Management of risk is critical to the effective running of the business and is considered as part of the Group's decision-making processes.

Risk area	Description	Mitigation
COVID-19	At the time of writing, the risks that COVID-19 pose to the business are the most prevalent. When the pandemic first occurred in China, the initial threat was to our manufacturing and Asian supply chain but more recently the threat has become the risk to the global supply chain. The Group cannot predict the extent that the effect of the virus will have on consumer demand, nor is it known how widespread the virus will be in any one country or how long the pandemic will last. Our priority is to keep our workplaces and people as safe as possible. At the same time we must consider other ways of getting the products to the consumers that wish to buy them.	While the virus is likely to impact our operations, the Group has supply agreements with manufacturers located in both China and Malaysia thus lessening the impact of the virus occurring in one region. Additionally, the Group has stock in two third party logistics firms, one in China and one in the UK. The Group also works with its resellers and distributors to ensure they are holding sufficient stocks should there be disruption to the supply chain. The Group's distribution network comprises both bricks and mortar and online resellers and covers all major regions of the world. Therefore, while many physical stores are currently shut the increased demand from online resellers has more than compensated. Currently consumer demand for Focusrite and ADAM products has risen and while many live sound tours and installed sound projects have been postponed, Martin Audio has not seen any material cancellations in future business. The Group has also transformed its own e-commerce offering whose improvement continues month on month. The Group has invested significantly in its information technology and communications structure so that nearly all of the workforce can work from home, therefore the Group has been able to continue its efforts to develop new products. At an unknown point in time the pandemic will pass and while the Group does not rely on this as a mitigation, COVID-19 is expected to be a short-term rather than a long-term risk. That said, it is expected that there will be lasting structural changes to the retail market therefore, the Group's serving of its customers will also evolve.
Economic environment	The Group operates in the global economy and ultimately within the retail environment with products being sold to consumer end-user musicians.	The Group sells products at all levels of the market in c.160 territories worldwide via three distinct product categories and is working to reduce reliance on any single

	Such operations are influenced by global and national economic factors and particularly current is the unknown impact the global pandemic caused by the coronavirus will have.	product or territory, helped by the acquisition of ADAM Audio and the more recent acquisition of Martin Audio.
Brexit	The prospect of a free trade agreement not being in place at the end of the transition period continues to cause uncertainty as changes in trade relationships between Europe and the UK as a result of Brexit could give rise to both a supply and cost issue. There has already been foreign exchange volatility and the imposition of some additional duties and minor disruption to the logistics network.	A large proportion of product is shipped directly from the manufacture to the distributors, particularly in the US and Asia. Product destined for continental Europe travels via the UK. The Group is positioning itself to be able to continue to supply products from the UK to continental Europe after the end of the transition period. The Group has previously increased selling prices in the UK to correct the imbalance caused by the significant foreign exchange rate changes. The Group's continues to monitor the possible impacts of no-deal and plans are being put in place to mitigate these risks, for example the rights of EU employees to live and work in the UK, the ability to trade on our existing contractual terms, how we will manage the personal data of customers if the UK is deemed to be a third country and other matters as they become known.
US import tariffs	The Group has product manufactured in China and Malaysia. The volatile China/US relationship has seen tariffs of between 10%-25% being imposed on most products manufactured in China and then rolled back partially following agreement between the two countries. The changing nature of the relationship and the subsequent retaliatory tariff impositions mean that import tariffs could be reimposed or rise further.	In 2018, the Group increased the minimum advertised price to cover the additional tariffs. This mitigated much of the effect of the higher tariffs. Additionally, the Group started to manufacture some products in Malaysia.
Product innovation	The market for the Group's products is characterised by continued evolution in technology, evolving industry standards, changes in customer needs and frequent new competitive product introductions. If the Group is unable to	Research and development remains one of the Group's largest investments. The Group has a bespoke project system that facilitates the operation of a rigorous, disciplined product introduction process to ensure that as far as possible the fast-

	anticipate or respond to these challenges or fails to develop and introduce successful products on a timely basis, it could have an adverse impact on the Group's business and prospects.	changing needs of its target markets are met. In addition, the Group continuously seeks efficiencies and minimises costs where possible.
Supplier concentration	The Group is dependent on a small number of suppliers, in particular its largest supplier, which provides Focusrite interfaces. Failure or material delay by its suppliers to perform, or failure by the Group to renew such arrangements, could have a material adverse effect on the Group's business, operating results and financial position.	The Group has supply agreements with four major manufacturers. The Group works with its resellers and distributors to ensure they are holding sufficient stock levels should there be disruption to the supply chain and this has been successfully tested following the recent reduction in industrial output levels in China. In addition, the Group's largest selling product line, Scarlett, is dual-sourced in both China and Malaysia with lines running in parallel to mitigate any regional risk. Relationships are long-lasting and strong. Members of the operations department within Focusrite meet each supplier three to four times per year to review performance and costs.
Customer concentration	In certain countries, including the US, the Group operates via a single distributor or has large individual reseller customers. In certain cases, a failure of or breakdown in the relationship with a key reseller or distributor, or even the failure of a major customer of that distributor, could significantly and adversely affect the Group's business.	In cases where there is a large distributor in a significant market, the Group also communicates with the major retailers. In addition, the Group carefully monitors customer credit limits and has credit insurance which typically covers the majority of the customer debts outstanding at any point in time.
Channels to market	Significant change in the methods by which end-users wish to buy Focusrite products could significantly affect the Group's business.	The Group or its distributors sell to both 'bricks and mortar' and e-commerce retailers so that the Group can satisfy customer demand via both methods.
Currency	The Group is exposed to currency and exchange rate fluctuations which may affect the Group's revenue and costs when reported in GBP.	There is a largely effective natural hedge for USD transactions as the Group uses its generation of USD to buy product in USD. Conversely, the Group has substantial Euro revenue and little cost. The Group mitigates this Euro exposure by entering into forward foreign exchange hedging

		contracts for the conversion of Euro to GBP.
People	The nature of the Group's business requires its employees in the technical and development teams to be highly skilled and experienced in their respective fields. The Group is dependent for its continued success on being able to attract, retain and motivate such individuals.	The Group is a leading company in the UK music industry and so attracts high-quality technical personnel. The Group also attracts graduates from music technology, electronics and engineering courses at renowned universities. The Group invests in developing its employees and incentivises them through wide-ranging share ownership incentives and other employment benefits to aid retention.
Intellectual property	The intellectual property and data developed by the Group is valuable and the Group could be harmed by infringement or loss.	The Group has established a programme for protecting its intellectual property and pursues infringements. The Group has data and information technology controls which are reviewed by the Group Board. Additionally, the Group includes data protection provisions in the contracts of all Group employees and requires all employees to undertake annual data protection training.
Information security	Information security and cyber threats are currently a priority across all industries and remain a key government agenda item.	Following the Group's detailed review of its IT systems there has already been a widespread upgrade of core IT functionality including cybersecurity (firewalls, anti-virus, mobile device management) and the implementation of cloud backup processes. The Group has moved all its core enterprise resource planning systems to the cloud with robust service level agreements in place to ensure data availability and security. The Group has also reviewed its processes and procedures to ensure GDPR compliance, has engaged an external adviser to assist with the Group's privacy programme and updated its cookie and privacy policies. There is an improving business continuity framework and a dedicated internal IT support team aided by external support providers.

FORWARD-LOOKING STATEMENTS

Certain statements in this half year report are forward looking. Although the Directors believe that their expectations are based on reasonable assumptions, any statements about future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.

Condensed Consolidated Income Statement

For the six months ended 29 February 2020

	Note	**Six months to 29 February 2020 (unaudited) £'000**	Six months to 28 February 2019 (unaudited) £'000	Year to 31 August 2019 (audited) £'000
Revenue	3	**49,926**	40,425	84,665
Cost of sales		**(26,920)**	(22,504)	(48,899)
Gross profit		**23,006**	17,921	35,766
Administrative expenses		**(19,991)**	(10,670)	(22,954)
EBITDA (non-GAAP measure)		**9,139**	8,881	17,197
Depreciation and amortisation		**(2,757)**	(1,630)	(3,648)
Non-underlying items	5	**(3,367)**	–	(737)
Operating profit		**3,015**	7,251	12,812
Finance income		**28**	75	246
Finance costs		**(353)**	(176)	(45)
Profit before tax		**2,690**	7,150	13,013
Income tax expense	6	**(639)**	(790)	(1,349)
Profit for the period from continuing operations		**2,051**	6,360	11,664
Earnings per share				
From continuing operations				
Basic (pence per share)	8	**3.6**	11.1	20.4
Diluted (pence per share)	8	**3.5**	11.0	20.1

Condensed Consolidated Statement of Other Comprehensive Income

For the six months ended 29 February 2020

	Six months to 29 February 2020 (unaudited) £'000	Six months to 28 February 2019 (unaudited) £'000	Year to 31 August 2019 (audited) £'000
Profit for the period	**2,051**	6,360	11,664
Items that may be reclassified subsequently to the income statement			
Exchange differences on translation of foreign operations	**88**	(24)	42
Gain on forward foreign exchange contracts designated and effective as a hedging instrument	**1,069**	785	(245)
Tax on hedging instrument	**(203)**	(149)	47
Total comprehensive income for the period	**3,005**	6,972	11,508
Profit attributable to:			
Equity holders of the Company	**3,005**	6,972	11,508
	3,005	6,972	11,508

Condensed Consolidated Statement of Financial Position

	Note	**28 February 2020 (unaudited) £'000**	28 February 2019 (unaudited) £'000	31 August 2019 (audited) £'000
Assets				
Non-current assets				
Goodwill		**17,587**	419	5,271
Other intangible assets	9	**41,539**	6,308	18,832
Property, plant and equipment		**4,170**	1,211	1,602
Total non-current assets	4	**63,296**	7,938	25,705
Current assets				
Inventories		**18,589**	12,295	15,182
Trade and other receivables		**18,437**	12,254	18,188
Derivative financial instruments	10	**881**	842	-
Cash and cash equivalents	10	**12,767**	26,172	15,505
Total current assets		**50,674**	51,563	48,875
Total assets		**113,970**	59,501	74,580
Equity and liabilities				
Capital and reserves				
Share capital		**58**	58	58
Share premium		**115**	115	115
Merger reserve		**14,595**	14,595	14,595
Merger difference reserve		**(13,147)**	(13,147)	(13,147)
Translation reserve		**180**	26	92
Hedging reserve		**714**	682	(152)
EBT reserve		**(1)**	(1)	(1)
Retained earnings		**52,474**	46,949	51,827
Equity attributable to owners of the Company		**54,988**	49,277	53,387
Total equity		**54,988**	49,277	53,387
Current liabilities				
Trade and other payables		**17,644**	8,437	15,664
Current tax liabilities		**551**	728	430
Provisions		**-**	200	-
Derivative financial instruments		**-**	-	188
Bank loan and overdraft	10	**-**	-	627
Total current liabilities		**18,195**	9,365	16,909
Non-current liabilities				
Deferred tax		**8,147**	859	4,284
Bank loan and overdraft	10	**32,640**	-	-
Total liabilities		**58,982**	10,224	21,193
Total equity and liabilities		**113,970**	59,501	74,580

Condensed Consolidated Statements of Changes in Equity

For the six months ended 29 February 2020	Share capital £'000	Share premium £'000	Merger reserve £'000	Merger difference reserve £'000	Translation reserve £'000	Hedging reserve £'000	EBT reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 September 2019	58	115	14,595	(13,147)	92	(152)	(1)	51,827	53,387
Profit for the period	-	-	-	-	-	-	-	2,051	2,051
Other comprehensive income for the period	-	-	-	-	88	866	-	-	954
Total comprehensive income for the period	-	-	-	-	88	866	-	2,051	3,005
Transactions with owners of the Company:									
Share-based payment deferred tax deduction in excess of remuneration expense	-	-	-	-	-	-	-	(147)	(147)
Shares from EBT exercised	-	-	-	-	-	-	-	233	233
Share-based payments	-	-	-	-	-	-	-	225	225
Shares withheld to settle employees' tax obligations associated with share-based payments	-	-	-	-	-	-	-	(214)	(214)
Dividends paid	-	-	-	-	-	-	-	(1,501)	(1,501)
Balance at 29 February 2020	58	115	14,595	(13,147)	180	714	(1)	52,474	54,988

Condensed Consolidated Statements of Changes in Equity (Continued)

For the six months ended 28 February 2019	Share capital £'000	Share premium £'000	Merger reserve £'000	Merger difference reserve £'000	Translation reserve £'000	Hedging reserve £'000	EBT reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 September 2018	58	115	14,595	(13,147)	50	46	(1)	41,731	43,447
Profit for the period	-	-	-	-	-	-	-	6,360	6,360
Other comprehensive income for the period	-	-	-	-	(24)	636	-	-	612
Total comprehensive income for the period	-	-	-	-	(24)	636	-	6,360	6,972
Transactions with owners of the Company:									
Share-based payment deferred tax deduction in excess of remuneration expense	-	-	-	-	-	-	-	(303)	(303)
Share-based payment current tax deduction in excess of remuneration expense	-	-	-	-	-	-	-	303	303
Shares from EBT exercised	-	-	-	-	-	-	-	44	44
Share-based payments	-	-	-	-	-	-	-	162	162
Shares withheld to settle employees' tax obligations associated with share-based payments	-	-	-	-	-	-	-	(205)	(205)
Premium on shares awarded in lieu of bonuses	-	-	-	-	-	-	-	175	175
Dividends paid	-	-	-	-	-	-	-	(1,318)	(1,318)
Balance at 28 February 2019	58	115	14,595	(13,147)	26	682	(1)	46,949	49,277

Condensed Consolidated Statements of Changes in Equity (Continued)

For the year ended 31 August 2019	Share capital	Share premium	Merger reserve	Merger difference reserve	Translation reserve	Hedging reserve	EBT reserve	Retained earnings	Total
	£'000	£’000	£'000	£'000	£'000	£'000	£'000	£'000	£’000
Balance at 1 September 2018	58	115	14,595	(13,147)	50	46	(1)	41,731	43,447
Profit for the period	–	–	–	–	–	–	–	11,664	11,664
Other comprehensive income for the period	–	–	–	–	42	(198)	–	–	(156)
Total comprehensive income for the period	–	–	–	–	42	(198)	–	11,664	11,508
Transactions with owners of the Company:									
Share-based payment deferred tax deduction in excess of remuneration expense	–	–	–	–	–	–	–	(238)	(238)
Share-based payment current tax deduction in excess of remuneration expense	–	–	–	–	–	–	–	310	310
Shares from EBT exercised	–	–	–	–	–	–	–	46	46
Share-based payments	–	–	–	–	–	–	–	348	348
Shares withheld to settle employees’ tax obligations associated with share-based	–	–	–	–	–	–	–	(204)	(204)
Premium on shares awarded in lieu of bonuses	–	–	–	–	–	–	–	175	175
Dividends paid	–	–	–	–	–	–	–	(2,005)	(2,005)
Balance at 31 August 2019	58	115	14,595	(13,147)	92	(152)	(1)	51,827	53,387

Consolidated Statement of Cash Flow

For the six months ended 29 February 2020

	Six months to 29 February 2020 £'000	Six months to 28 February 2019 £'000	Year to 31 August 2019 £'000
Cash flows from operating activities			
Profit for the period	**2,051**	6,360	11,664
Adjustments for:			
Income tax expense	**639**	790	1,349
Net finance charge/(income)	**325**	101	(201)
Loss/(profit) on disposal of property, plant and equipment	**(1)**	-	3
Amortisation of intangibles	**3,244**	1,271	2,936
Depreciation of property, plant and equipment	**644**	359	712
Movement in provisions	**-**	200	-
Share-based payment charge	**225**	162	348
Operating cash flow before movements in working capital	**7,127**	9,243	16,811
Decrease/(increase) in trade and other receivables	**3,535**	1,056	(4,203)
(Increase) in inventories	**2,579**	(904)	(696)
(Decrease)/increase in trade and other payables	**(4,222)**	(2,272)	2,681
Operating cash flow before interest and tax paid	**9,019**	7,123	14,593
Net interest received/(paid)	**(155)**	75	58
Income tax paid	**(816)**	(79)	(825)
Net cash inflow from operating activities	**8,048**	7,119	13,826
Cash flows from investing activities			
Purchases of property, plant and equipment	**(2,698)**	(295)	(808)
Development of intangible assets	**(3,251)**	(1,959)	(4,135)
Acquisition of subsidiary, net of cash acquired	**(35,265)**	-	(14,996)
Net cash used in investing activities	**(41,214)**	(2,254)	(19,939)
Cash flows from financing activities			
Issue of equity shares	**1**	14	-
New bank and other loans raised	**32,640**	-	-
Equity dividends paid	**(1,501)**	(1,318)	(2,005)
Net cash generated/(used) in financing activities	**31,140**	(1,304)	(2,005)
Net increase in cash and cash equivalents	**(2,026)**	3,561	(8,118)
Net foreign exchange movement	**(85)**	(200)	185
Cash and cash equivalents at beginning of the period	**14,878**	22,811	22,811
Cash and cash equivalents at end of the period	**12,767**	26,172	14,878

Notes to the Condensed Consolidated Interim Financial Statements

1. Basis of preparation and significant accounting policies

Focusrite plc (the 'Company') is a company incorporated in the UK. The condensed consolidated interim financial statements ('interim financial statements') as at and for the six months ended 29 February 2020 comprised the Company and its subsidiaries (together referred to as the 'Group').

The Group is a business engaged in the development, manufacture and marketing of professional audio and electronic music products.

Statement of compliance

The interim financial statements are for the six months ended 29 February 2020 and are presented in pounds Sterling ('GBP'). This is the functional currency of the Group. The statement is presented to the nearest £1,000 ('£'000'). The interim financial report has been prepared in accordance with the International Financial Reporting Standards ('IFRS'), International Accounting Standards ('IAS') and interpretations currently endorsed by the International Accounting Standards Board ('IASB') and its committees as adopted by the EU and as required to be adopted by AIM listed companies. AIM listed companies are not required to comply with IAS 34 'Interim Financial Reporting' and accordingly the Company has taken advantage of this exemption. They do not include all the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 August 2019.

These interim financial statements were authorised for issue by the Company's Board of Directors on 12 May 2020.

The comparative figures for the financial year ended 31 August 2019 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Significant accounting policies

The interim financial statements have been prepared in accordance with the accounting policies adopted in the Group's financial statements for the year ended 31 August 2019, with the exception of the following:

Adoption of IFRS 16 'Leases'

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The new standard replaces existing leases guidance, principally IAS 17 'Leases'.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases of 12 months or less and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Group applied IFRS 16 initially on 1 September 2019, using the modified retrospective approach. IFRS 16 has a number

of practical expedients for first time adoption. The Group has utilised the following practical expedients at the transition date:
• apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
• exclude initial direct costs from the measurement of the right-of-use asset on transition;
• use hindsight to determine the term;
• use onerous contract assessment under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' immediately before transition instead of performing an impairment review under IAS 36 'Impairment'; and
• for leases with a remaining term of less than 12 months at 1 September 2019, the short-term lease exemption in IFRS 16 has been taken.

Right-of-use assets and lease liabilities of approximately £2.4 million have been recognised by the Group at 1 September 2019. The impact on net profit after tax is not material. However, adjusted EBITDA has increased by £0.4 million in HY20 as the operating lease payments were previously included in HY19 in EBITDA as an administrative expense, but the amortisation of the right-of-use assets and interest on the lease liability will be excluded from this measure. The impact on operating profit is not material.

Repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities, while currently these payments are classified as operating cash flows. In HY20, the value of these payments was approximately £0.4 million.

1.1 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and subsidiaries controlled by the Company drawn up to 29 February 2020.

1.2 Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases.

1.3 Going concern

The Board of Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the interim statements have been prepared on a going concern basis.

The COVID-19 virus has caused upheaval worldwide with many businesses experiencing a significant decline in revenue. The Directors have prepared projected cash flow information (base case forecasts) for the period ending twelve months from the date of their approval of this interim statement. These projections did not take full account of the improvements the Group is experiencing as a result of the impact of COVID-19 (see below). On the basis of this cash flow information, the Directors consider that at the end of the 12-month period, the Group will have reduced its current net debt position from £19.9m (the Group's RCF facility of £40.0 million is due for renewal in December 2024). Throughout the period the forecast cash flow information indicates that the Group will comfortably comply with the leverage and interest cover covenants contained within the facility.

Management's view is that a severe yet plausible downside assumption against their base case forecasts is estimated to be a revenue shortfall of 30% for a 6-month period commencing May 2020. This model assumes that purchases of stock will, in time, reduce to reflect reduced sales and the Group will respond to the shortfall by taking reasonable steps to reduce overheads within its control. Even at that level, the Group would be expected to remain well within the terms of its loan facility with the leverage covenant (net debt to adjusted EBITDA) in the period not exceeding 1.0 compared to the maximum of 2.5. The Group's net debt position under this severe plausible downside scenario is still expected to improve at the end of the 12-month period.

In their sensitivity analyses, the Directors estimate that if the Group were to experience a shortfall in revenue of greater than 60% for six months, this could result in leverage beyond that permitted by the current facility by November 2020, despite consequential reductions in the purchases of stock and overheads. As an additional measure, the Directors could also stop the dividend. However, the Directors view is that this scenario of a revenue shortfall of greater than 60% is not plausible.

In reality, the Group is currently experiencing record levels of consumer registrations and customer demand, partially as a result of the COVID-19 restrictions on people's movement, and therefore revenue growth has accelerated since the half year end. This is evidenced by improvements in the Group's net debt position which had reduced by £4 million to £16 million at 30 April 2020. Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the interim statements and therefore have prepared the interim statements on a going concern basis.

1.4 Earnings per share

The Group presents basic and diluted earnings per share ('EPS') data for its ordinary shares. Basic EPS is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. For diluted EPS, the weighted average number of ordinary shares is adjusted for the dilutive effect of potential ordinary shares arising from the exercise of granted share options.

1.5 Accounting estimates and judgements

In application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by the Directors in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those applied to the Group's financial statements for the year ended 31 August 2019 with the addition of judgements relating to the acquisition of Martin Audio in December 2019.

1.6 Foreign currencies

The individual financial statements of each subsidiary are presented in the currency of the primary economic environment in which it operates (its functional currency). Sterling is the predominant functional currency of the Group and presentation currency for the consolidated financial information.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on transactions entered into to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

For the purpose of presenting consolidated financial information, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of the transactions are used. Exchange differences arising, if any, are recognised in the income statement.

1.7 Hedge accounting

The Group has adopted hedge accounting for qualifying transactions. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities of firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

For cash flow hedges, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability.

2. Acquisition of a subsidiary

On 30 December 2019, the Group acquired 100% of the shares and voting interests in Optimal Audio Group Limited (hereafter referred to as Martin Audio), comprising subsidiaries Martin Audio Limited and Martin Audio US LLC and 18 shares (10%) of associated company Martin Audio Japan Inc. The total consideration paid was £39,610,000 of which £33,000,000 was funded through use of the Group's Revolving Credit Facility and the remainder was satisfied in cash. The Group paid £372,000 to arrange the credit facility. There was no deferred consideration.

Martin Audio, designs, manufactures and distributes premium professional sound systems across the globe. It employs some 74 people worldwide, with the vast majority based at its head office and co-located manufacturing facilities. Martin Audio is recognised as a market leader and places great emphasis on product design and innovation to sustain and drive growth with a strong product roadmap in place.

By extending the Group's business into new products and markets, which complement its existing offerings, the acquisition is strategically aligned with the Company's previously communicated aims to grow the core customer base, expand into new markets and increase lifetime value for customers.

For the two-month period between the acquisition and 29 February 2020 Martin Audio contributed revenue of £4,526,000 and a profit before tax of £333,000 to the Group's interim results. If the acquisition had occurred on 1 September 2019, management estimates that Martin Audio's revenue would have been £13,405,000 and profit before tax for the half year would have been £1,563,000. In determining these amounts management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 September 2019.

Acquisition-related costs

The Group incurred acquisition-related costs of £1,721,000 on legal fees and due diligence costs. These have been included in non-underlying costs.

Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired, and liabilities assumed at the date of acquisition:

Recognised values on acquisition	**£'000**
Brand	**6,800**
Patent designs	**11,300**
Patent designs in development	**4,600**
Other intangible assets	**22,700**
Property, plant and equipment	**514**
Cash	**4,345**

Inventories	**5,986**
Trade and other receivables	**3,783**
Deferred tax	**(3,859)**
Trade and other payables	**(6,175)**
Net identifiable assets and liabilities at fair value	**27,294**
Goodwill recognised on acquisition	**12,316**
Consideration paid	**39,610**

Measurement of fair values

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Assets acquired	**Valuation technique**
Property, plant and equipment	Cost approach
Intangible assets- Product design and development	Market approach (cost to replace)
Intangible assets- Brand	Income approach (multi-period excess earnings method)
Inventories	Cost approach

The trade receivables amounts included within 'trade and other receivables' comprise gross contractual amounts due of £3,390,000, of which £455,000 was expected to be uncollectable at the date of acquisition.

Fair values measure on a provisional basis

Martin Audio was acquired only two months prior to the end of this reporting period. If new information is obtained within one year of the date of acquisition about the facts and circumstances that existed at the date of acquisition that identifies adjustments to the above amounts or any additional provisions that existed at the date of acquisition, then the accounting for the acquisition will be revised.

Goodwill

The goodwill is attributable to:

- the skills and technical talent of the Martin Audio workforce;
- worldwide reputation based on patent design and technological innovation;
- alignment to the Group's existing customer base; and
- strong strategic fit to grow the core customer base; and expand into new markets and increase lifetime value for customers

Intangible assets sensitivity analysis

In assessing the estimated useful life of the intangible assets, management considered the sensitivity in the estimated life of the brand and patent development. The following table details the sensitivity to a one-year increase and decrease in the amortisation period, and ultimately reflecting the impact on the net profit (or loss).

Amortisation is calculated based on the constant that brand is recognised at cost of £6,800,000, patented design at £11,200,000 and patented design in development at £4,600,000.

	Brand			Patent designs			Patent designs in development		
	19 years	**20 years**	21 years	7 years	**8 years**	9 years	10 years	**11 years**	12 years
	£'000	£'000	£'000	£'000	**£'000**	£'000	£'000	**£'000**	£'000
Annual amortisation	358	**341**	324	1,614	**1,413**	1,256	460	**418**	383
Impact on profit	(17)	**-**	17	(201)	**-**	157	(42)	**-**	35

The following table assesses the impact of differing estimated useful lives of products on the valuation of the intangible assets.

	Brand			Patent designs			Patent designs in development		
	19 years	**20 years**	21 years	7 years	**8 years**	9 years	10 years	**11 years**	12 years
	£'000	£'000	£'000	£'000	**£'000**	£'000	£'000	**£'000**	£'000
Fair Value		**6,800**			**11,300**			**4,600**	
Impact on valuation	(116)	**-**	143	(274)	**-**	143	(130)	**-**	74

Based on the above, we concluded that the impact would not be material, and therefore a more detailed sensitivity analysis has not been done.

3. Revenue

An analysis of the Group's revenue is as follows:

	Six months to February 2020				Six months to February 2019			
	EMEA	**North America**	**Rest of World**	**Total**	EMEA	North America	Rest of World	Total
	£'000	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000	£'000
Focusrite	**11,748**	**10,077**	**3,749**	**25,574**	11,975	10,580	3,753	26,308
Focusrite Pro	**607**	**853**	**424**	**1,884**	642	1,562	390	2,594
Focusrite segment	**12,355**	**10,930**	**4,173**	**27,458**	12,617	12,142	4,143	28,902
Novation segment	**4,521**	**3,506**	**1,908**	**9,935**	5,002	2,821	2,004	9,827
ADAM Audio	**3,700**	**2,205**	**1,136**	**7,041**	-	-	-	-
Martin Audio	**1,573**	**1,453**	**1,500**	**4,526**	-	-	-	-
Distribution segment	**966**	**-**	**-**	**966**	1,696	-	-	1,696
Total	**23,115**	**18,094**	**8,717**	**49,926**	19,315	14,963	6,147	40,425

Year to August 2019			
EMEA	North	Rest of	Total

		America	World	
	£'000	£'000	£'000	£'000
Focusrite	22,059	26,366	9,219	57,644
Focusrite Pro	1,316	2,537	851	4,704
Focusrite segment	23,375	28,903	10,070	62,348
Novation segment	7,096	6,684	3,939	17,719
ADAM Audio	714	758	278	1,750
Distribution segment	2,848	-	-	2,848
Total	34,033	36,345	14,287	84,665

4. Operating segments

Products and services from which reportable segments derive their revenues

Information reported to the Group's Chief Executive Officer (who has been determined to be the Group's Chief Operating Decision Maker) for the purposes of resource allocation and assessment of segment performance is focused on the main product groups which the Group sells. While the results of Novation and Ampify are reported separately to the Board, they meet the aggregation criteria set out in IFRS 8 'Operating Segments'. The Group's reportable segments under IFRS 8 are therefore as follows:

Focusrite	-	Sales of Focusrite and Focusrite Pro branded products
Novation	-	Sales of Novation and Ampify branded products
Distribution	-	Distribution of third-party brands, including KRK speakers, Stanton, Cerwin Vega, Cakewalk and sE Electronics
ADAM Audio	-	Sale of ADAM Audio products. Only applies after acquisition on 16 July 2019
Martin Audio	-	Sale of Martin Audio products. Only applies after acquisition on 30 December 2019

The revenue and profit generated by each of the Group's operating segments are summarised as follows:

	Six months to 29 February 2020 (unaudited)	Six months to 28 February 2019 (unaudited)	Year to 31 August 2019 (audited)
	£'000	£'000	£'000
Revenue from external customers			
Focusrite	**25,574**	26,308	57,644
Focusrite Pro	**1,884**	2,594	4,704
Novation	**9,935**	9,827	17,719
ADAM Audio	**7,041**	-	1,750
Martin Audio	**4,526**	-	-
Distribution	**966**	1,696	2,848
Total	**49,926**	40,425	84,665
Segment profit			
Focusrite	**13,203**	13,219	28,785

Focusrite Pro	**1,137**	1,631	2,908
Novation	**5,073**	5,013	8,680
ADAM Audio	**3,856**	-	159
Martin Audio	**1,943**	-	-
Distribution	**241**	424	807
	25,453	20,287	41,339
Central distribution costs and administrative expenses	**(19,071)**	**(13,036)**	(27,790)
Non-underlying items	**(3,367)**	**-**	(737)
Operating profit	**3,015**	**7,251**	12,812
Finance income	**28**	**75**	246
Finance costs	**(353)**	**(176)**	(45)
Profit before tax	**2,690**	**7,150**	13,013
Tax	**(639)**	**(790)**	(1,349)
Profit after tax	**2,051**	**6,360**	11,664

Segment profit represents the profit earned by each segment without allocation of the share of central administration costs, including Directors' salaries, finance income and finance costs, and income tax expense. This is the measure reported to the Group's Chief Executive Officer for the purpose of resource allocation and assessment of segment performance.

Central administration costs comprise principally the employment-related costs and other overheads incurred by the Group. Also included within central administration costs is the charge relating to the share option scheme of £225,000 for the six-month period to 29 February 2020 (six months to 28 February 2019: £162,000; year to 31 August 2019: £348,000).

Segment net assets and other segment information

Management does not make use of segmental data relating to net assets and other balance sheet information for the purposes of monitoring segment performance and allocating resources between segments. Accordingly, other than the analysis of the Group's non-current assets by region shown below, this information is not available for disclosure in the consolidated financial information.

The Group's non-current assets, analysed by region, were as follows:

	29 February 2020 (unaudited) £'000	28 February 2019 (unaudited) £'000	31 August 2019 (audited) £'000
Non-current assets			
US	**124**	68	124
Europe, Middle East and Africa	**61,464**	7,335	24,900
Rest of World	**1,708**	535	681

Total non-current assets	**63,296**	7,938	25,705

5. Non-Underlying Costs

The following non-underlying costs have been declared in the period

	29 February 2020 (unaudited) £'000	28 February 2019 (unaudited) £'000	31 August 2019 (audited) £'000
Non-underlying costs			
Acquisition Costs	**1,813**	-	737
Amortisation of Acquired Intangible Assets	**1,144**	-	-
Other	**410**	-	-
Total non-underlying costs	**3,367**	-	737

Acquisition costs in the six months to 29 February 2020 included costs of £1,721,000 relating to Martin Audio and additional costs of £92,000 relating to the acquisition of ADAM Audio in July 2019 not previously accrued for. Other costs relate largely to the costs of people changes.

6. Taxation

The tax charge for the six months to 29 February 2020 is based on the estimated tax rate for the full year in each jurisdiction.

7. Dividends

The following equity dividends have been declared:

	Six months to 29 February 2020 (unaudited)	Six months to 28 February 2019 (unaudited)	Year to 31 August 2019 (audited)
Dividend per qualifying ordinary share	**nil**	1.20p	3.80p

In light of the highly unusual circumstances caused by the COVID-19 virus the Board has decided to defer the declaration of a dividend until later in 2020.

During the period, the Company paid a final dividend in respect of the year ended 31 August 2019 of 2.60 pence per share, amounting to £1,501,000.

8. Earnings per share

Reported EPS

The calculation of the basic and diluted EPS is based on the following data:

Earnings	**Six months to 29 February 2020 (unaudited) £'000**	Six months to 28 February 2019 (unaudited) £'000	Year to 31 August 2019 (audited) £'000
Earnings for the purposes of basic and diluted EPS being net profit for the period	**2,051**	6,360	11,664
Non-underlying items	**3,367**	-	737
Tax on non-underlying items	**-**	-	-
Total underlying profit for adjusted EPS calculation	**5,418**	6,360	12,401

Number of shares	**Six months to 29 February 2020 number '000**	Six months to 28 February 2019 number '000	Year to 31 August 2019 number '000
Weighted average number of ordinary shares for the purposes of basic EPS calculation	**57,537**	57,222	57,221
Effect of dilutive potential ordinary shares:			
EMI share option scheme and unapproved share option plan	**733**	856	824
Weighted average number of ordinary shares for the purposes of diluted EPS calculation	**58,270**	58,078	58,045
EPS	**Pence**	Pence	Pence
Basic EPS	**3.6**	11.1	20.4
Diluted EPS	**3.5**	11.0	20.1
Adjusted basic EPS	**9.4**	11.1	21.7
Adjusted diluted EPS	**9.3**	11.0	21.4

At 29 February 2020, the total number of ordinary shares issued and fully paid was 58,111,639. This included 383,114 shares held by the Employee Benefit Trust ('EBT') to satisfy options vesting in future years. The operation of this EBT is funded by the Group so the EBT is required to be consolidated, with the result that the weighted average number of ordinary shares for the purpose of the basic EPS calculation is the net of the weighted average number of shares in issue (58,111,639) less the weighted average number of shares held by the EBT (574,649). It should be noted that the only right relinquished by the Trustees of the EBT is the right to receive dividends. In all other respects, the shares held by the EBT have full voting rights.

The effect of dilutive potential ordinary share issues is calculated in accordance with IAS 33 and arises from the employee share options currently outstanding, adjusted by the profit element as a proportion of the average share price during the period.

9. Other Intangible Assets

	Intellectual property	Internally Generated Development costs	Acquired Development costs	Licences	Trademark	Computer software	Brands	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost								
At 1 September 2018	495	18,336	-	89	286	857	-	20,063
Additions - products previously under development	91	-	-	14	136	151	-	392
Additions - products developed during the year	-	2,934	-	-	-	-	-	2,934
Additions - from development in progress	-	887		-	-	-	-	887
Additions through business combination	-	-	4,485	-	-	-	7,500	11,985
Disposals	(50)	(2,495)	-	-	-	-	-	(2,545)
At 1 September 2019	536	19,662	4,485	103	422	1,008	7,500	33,716

	Intellectual property	Internally Generated Development costs	Acquired Development costs	Licences	Trademark	Computer software	Brands	Total
At 1 September 2019	**536**	**19,662**	**4,485**	**103**	**422**	**1,008**	**7,500**	**33,716**
Additions - products previously under development	**38**	**-**	**-**	**57**	**192**	**399**	**-**	**686**
Additions - products developed during the period	**-**	**1,267**	**-**	**-**	**-**	**-**	**-**	**1,267**
Additions - from development in progress	**-**	**1,298**	**-**	**-**	**-**	**-**	**-**	**1,298**
Additions through business combination	**-**	**-**	**15,900**	**-**	**-**	**-**	**6,800**	**22,700**
Disposals	**-**	**-**	**-**	**-**	**(1)**	**-**	**-**	**(1)**
At 29 February 2020	**574**	**22,227**	**20,385**	**160**	**613**	**1,407**	**14,300**	**59,666**

	Intellectual property	Internally Generated Development costs	Acquired Development costs	Licences	Trademark	Computer software	Brands	Total
Amortisation								
At 1 September 2018	208	13,695	-	88	114	338	-	14,443
Charge for the year	145	2,186	110	7	155	238	95	2,936
Eliminated on disposal	-	(2,495)	-	-	-	-	-	(2,495)

At 1 September 2019	353	13,386	110	95	269	576	95	14,884
Charge for the period	84	1,837	519	10	78	91	625	3,244
Eliminated on disposal	-	-	-	-	(1)	-	-	(1)
At 29 February 2020	**437**	**15,223**	**629**	**105**	**346**	**667**	**720**	**18,127**

Carrying amount	Intellectual property	Internally Generated Development costs	Acquired Development costs	Licences	Trademark	Computer software	Brands	Total
At 29 February 2020	**137**	**7,004**	**19,756**	**55**	**267**	**740**	**13,580**	**41,539**
At 31 August 2019	183	6,276	4,375	8	153	432	7,405	18,832

10. Financial instruments

The fair value of the Group's derivative financial instruments is calculated using the quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing model for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contract.

IFRS 13 'Fair Value Measurements' requires the Group's derivative financial instruments to be disclosed at fair value and categorised in three levels according to the inputs used in the calculation of their fair value.

Financial instruments carried at fair value should be measured with reference to the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The financial instruments held by the Group that are measured at fair value all related to financial assets/(liabilities) measured using a Level 2 valuation method.

The fair value of financial assets and liabilities held by the Group are:

	29 February 2020 (unaudited) £'000	28 February 2019 (unaudited) £'000	31 August 2019 (audited) £'000
Financial assets			
Amortised cost			
Cash and cash equivalents	**12,767**	26,172	15,505
Trade and other receivables	**16,306**	11,533	16,181
Designated cash flow hedge relationships			

Derivative financial assets designated and effective as cash flow hedging instruments	**881**	842	-
	29,954	38,547	31,686
Financial liabilities			
Designated cash flow hedge relationships			
Derivative financial liabilities designated and effective as cash flow	-	-	188
Amortised cost			
Trade and other payables	**9,133**	5,326	8,953
Bank loan and overdraft	**32,640**	-	627
	41,773	5,326	9,768

Independent Review Report to Focusrite plc

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly report for the six months ended 29 February 2020 which comprises Condensed Consolidated Income Statement, Condensed Consolidated Statement of Other Comprehensive Income, Condensed Consolidated Statement of Financial Position, Condensed Consolidated Statements of Changes in Equity, Consolidated Statement of Cash Flow and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly report for the six months ended 29 February 2020 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and the AIM Rules.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The half-yearly report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly report in accordance with the AIM Rules.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly report based on our review

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Michael Froom
for and on behalf of KPMG LLP
Chartered Accountants

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12 May 2020