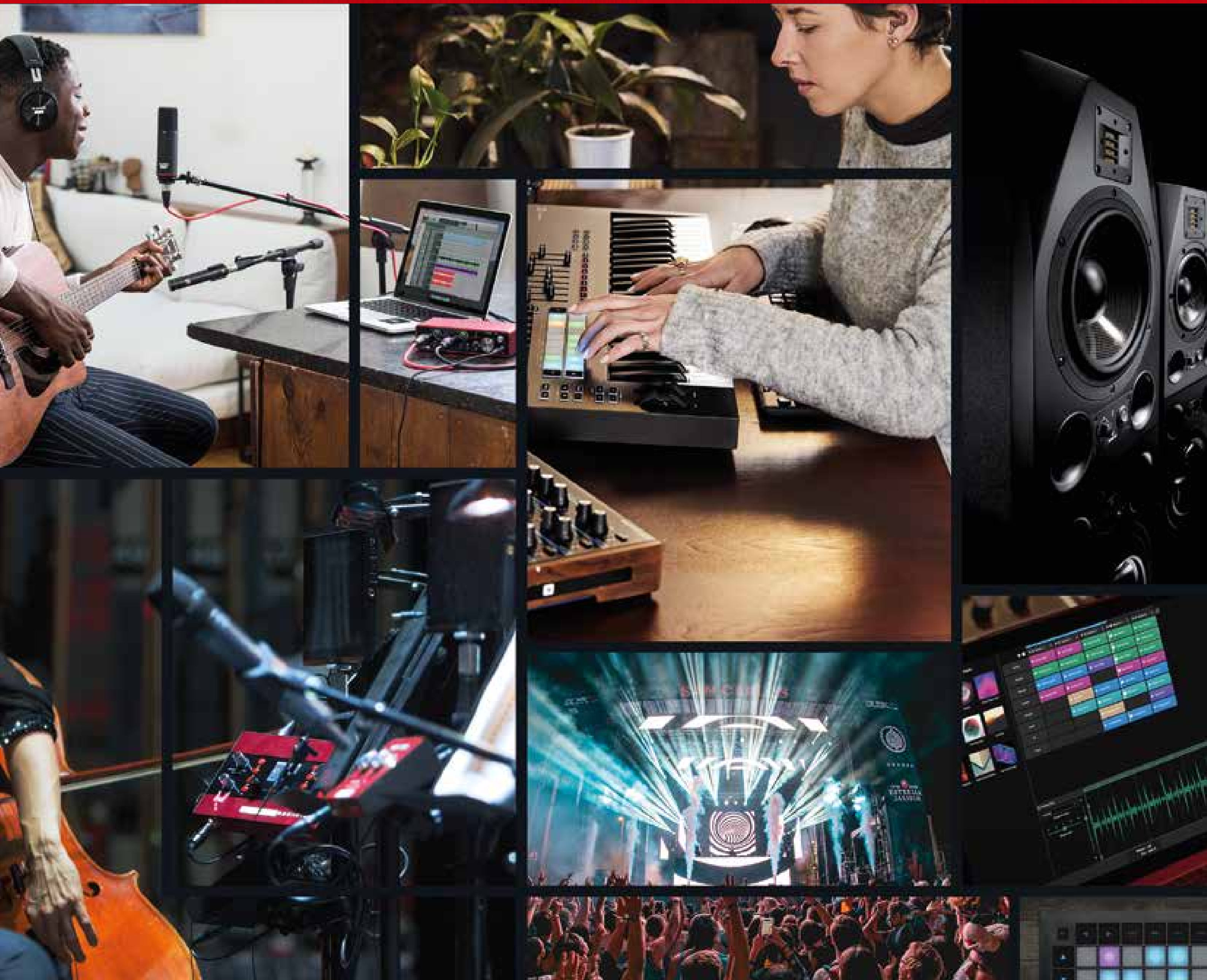
Focusrite plc | Annual Report & Accounts 2020

# Enriching lives through music



**Our family of brands stand united behind a single purpose; to enrich lives through music. At the heart of our brands are our people; a like-minded, eclectic family of music lovers brought together by a common passion; music and creativity.**

ADAM AUDIO

This was our first major acquisition since going public in 2014; a clear demonstration of our careful consideration around which brands should join in our mission to 'Remove Barriers to Creativity'.

See pages 16–17

MARTIN AUDIO

The acquisition of Martin Audio is a clear demonstration of our strategic aim to expand into complementary new markets. The Martin Audio team share our hunger to innovate and our passion as music and sound enthusiasts.

See pages 18–19

We also share a common mission: to remove barriers to creativity. We believe in the power of music to do good in this world and know how we can make a difference. There are pointless barriers stopping people from realising their own creativity. Not just technological barriers, but geographical, social, economic, political and more. As a team we aim to remove them, one by one.

www.focusriteplc.com

# Highlights



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## Financial highlights

Focusrite plc (AIM:TUNE), the global music and audio products company, announces final results for the year ended 31 August 2020.

### Group revenue (£m)

*(Constant currency[1]: +57.1%)*

**£130.1m +53.7%**

| | |
|---|---|
| 2020 | 130.1 |
| 2019 | 84.7 |
| 2018 | 75.1 |

### EBITDA[2] (£m)

**£28.6m +66.1%**

| | |
|---|---|
| 2020 | 28.6 |
| 2019 | 17.2 |
| 2018 | 15.5 |

### Operating profit (£m)

**£7.9m -38.1%**

| | |
|---|---|
| 2020 | 7.9 |
| 2019 | 12.8 |
| 2018 | 11.9 |

### Adjusted operating profit[3] (£m)

**£23.0m +70.0%**

| | |
|---|---|
| 2020 | 23.0 |
| 2019 | 13.5 |
| 2018 | 11.6 |

### Diluted earnings per share (p)

**7.0p -65.2%**

| | |
|---|---|
| 2020 | 7.0 |
| 2019 | 20.1 |
| 2018 | 18.1 |

### Adjusted diluted earnings per share[3] (p)

**32.8p +53.3%**

| | |
|---|---|
| 2020 | 32.8 |
| 2019 | 21.4 |
| 2018 | 17.6 |

### Underlying FCF as % revenue (£m)

**£28.2m +176.5%**

| | |
|---|---|
| 2020 | 28.2 |
| 2019 | 10.2 |
| 2018 | 10.0 |

### Proposed total dividend (p)

**4.2p +10.5%**

| | |
|---|---|
| 2020 | 4.2 |
| 2019 | 3.8 |
| 2018 | 3.3 |

## Operational highlights

- Acquisition of Martin Audio completed in December 2019 for £35.3 million net of acquired cash.
- Focusrite revenue up by 32.2% driven by the Scarlett 3rd Generation range.
- Novation revenue up by 9.4% as the new generations of Launchpad and Launchkey products gained traction.
- All major geographic regions grew: North America was up by 39.9%; Europe, Middle East and Africa by 65.9%; and the Rest of World by 59.7%. This includes the benefit of a full year of ADAM Audio trading, eight months of Martin Audio trading and increased demand due to widespread lockdowns.
- Adapted successfully to the restrictions imposed by COVID-19 resulting in the continued development and supply of products.
- 13 new hardware products within Focusrite as well as numerous software/firmware updates.

1 Constant currency revenue growth is calculated by taking the sterling value of FY20 revenue, converting to FY19 annual average exchange rates and comparing with the reported revenue for FY19. In addition, all foreign exchange movements disclosed in revenue are excluded from both years.

2 Comprising earnings adjusted for interest, taxation, depreciation, amortisation, goodwill impairment and non-underlying items (see table reconciliation on page 22).

3 Adjusted for amortisation of acquired intangible assets, goodwill impairment and non-underlying items (see note 14 and table reconciliation on page 22).

# Company Overview

## A worldwide leader in music and audio technology for the creation and delivery of world class sound.

**The Group is comprised of three business units that all transact globally through a system of distributors, retailers, system integrators, and direct to customer platforms. Our products are designed in the headquarters of each of our individual business units, namely High Wycombe, London and Berlin. The manufacturing process is a mixture of contract manufacturers in China and Malaysia, and in-house manufacturing. This past year, we sold over 1.2 million physical products and had our various music creation apps downloaded 1.2 million times. We utilise third-party logistics support. We employ over 400 people across the UK, Germany, USA, Hong Kong, Latin America and Australia.**

Focusrite®

**Focusrite Audio Engineering Limited ('FAEL')** comprises Focusrite, Focusrite Pro, Novation and Ampify brands. Core to the FAEL culture and mission is the concept of removing barriers to creativity, no matter what skill level or type of audio production one does. Focusrite's legacy was born out of a request from the Beatles producer, Sir George Martin, ultimately resulting in the Focusrite console, which is still regarded as one of the finest analogue studio consoles ever made. In a short amount of time, the way music was produced changed rapidly, with digital systems taking over traditional analogue recording methods and offering unprecedented control over the recording process. In parallel, computer technology evolved to a state where affordable desktop and laptop computers could be the centrepiece of a high-quality recording system. Focusrite recognised this transition and soon after, leveraged everything they knew about high-quality audio paths for building audio interfaces to allow connectivity to computers for digital recording. The company has led the way in this market with many game-changing products and technologies that have enabled musicians of all calibres to have a high-quality recording experience. The company addressed the home recording/hobbyist market with the Focusrite branded Scarlett and Clarett ranges. The Focusrite Pro brand was designed to address the specific needs of audio professionals and has become one of the leading providers of audio over IP (AOIP) network audio solutions. During the transition to digital workflows, electronic music flourished and brought a multitude of new music makers across many genres. The company reacted to this by acquiring Novation, a brand that is all about solutions for electronic music makers. Novation has become known for revolutionising the grid controller category with the Launchpad, and producing high-quality keyboard controllers, grooveboxes and amazing sound synthesisers. Shortly after, the company recognised an opportunity to produce simple but powerful iOS apps that could introduce millions of new users to the world of electronic music. Ampify was set up in a separate UK location to develop what has become some of the most downloaded and recognised music creation apps in the world.

**Revenue by geography**

| 43% | 39% | 18% |
|---|---|---|
| EMEA | USA | ROW |

| 1.2m+ | 1.2m+ | 400+ |
|---|---|---|
| physical products were sold last year | music creation apps downloaded | people employed globally |

ADAM AUDIO

Founded in 1999, ADAM Audio quickly made their mark on the high-end reference market with its ribbon tweeter technology. Today, ADAM Audio is a leader in the field of electroacoustics with the ADAM Audio A Series and S Series loudspeakers as standard in many professional recording studios across the globe. More recently, the company introduced a more affordable line of studio monitors, the T Series, that addresses the home recording customer. ADAM Audio and Focusrite solutions are perfectly aligned, with a shared mission to create the most holistic creative experience for all audio creatives and remove technical barriers to the art of recording. ADAM Audio was acquired by the Group in July 2019.

Martin Audio enjoys an international reputation for supplying award-winning, patent-protected professional audio systems across live sound and installation applications. It is the recognised global leader in optimised line array technology ensuring great coverage and control of any audience space. The company was founded in 1971 by engineering maestro David Martin. His vision was to enable bands to play to larger audiences and be properly heard for the first time. The reputation of Martin Audio speakers quickly grew and soon it was producing world class touring systems for the supergroups of the day, including Pink Floyd, The Who and Supertramp.

The central philosophy of the importance of the audience experience has remained to this day, as witnessed at the Glastonbury Festival and the BST Hyde Park concerts, for many years. The mission is for every member of the audience to enjoy an exceptional sonic experience, whether that is at a concert, nightclub, house of worship or hospitality venue. Our central philosophy is 'Unite Your Audience', with all Martin Audio products and solutions focused on delivering consistent sonic excellence in all applications. Today, Martin Audio continues in that legacy by continuing to provide solutions for some of the biggest tour sound shows and installed sound outlets across the globe, while expanding the portfolio to provide state-of-the-art audio solutions for smaller clubs and audio installations. Martin Audio was acquired by the Group in December 2019.

# Our History

**Company formation**
1985

**Focusrite acquired by our Chairman Phil Dudderidge**
March 1989

**Acquisition of Novation Brand**
2004

**IPO on Alternative Investment Market (AIM)**
2014

**ADAM Audio acquisition**
July 2019

**Martin Audio acquisition**
December 2019

**£41.0m**
Pre-IPO August 2014

**£130.1m**
2020 Group revenue

# Our Customers

## Catering to all our customers' needs

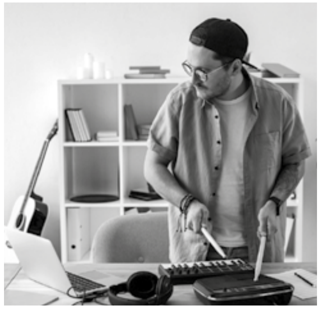
**Our end-users are segmented based on the extent music making forms their character; how significant a role music creation plays in shaping their daily attitudes, behaviours and the environment in which they create. Global market sizes are estimated from Music Trades Industry Consensus and management input.**

### The New Creator

Market size

**£400m–£450m**

The new music creator loves music. They talk about it all the time. Inspired by this love for music, they want to start doing it for themselves, but don't know what that looks like. They believe making music will be fun. Something they could really get into. Making it could bring them even closer to the music they love. Excited and impatient, they want fast results and are eager to share what they've made with friends.



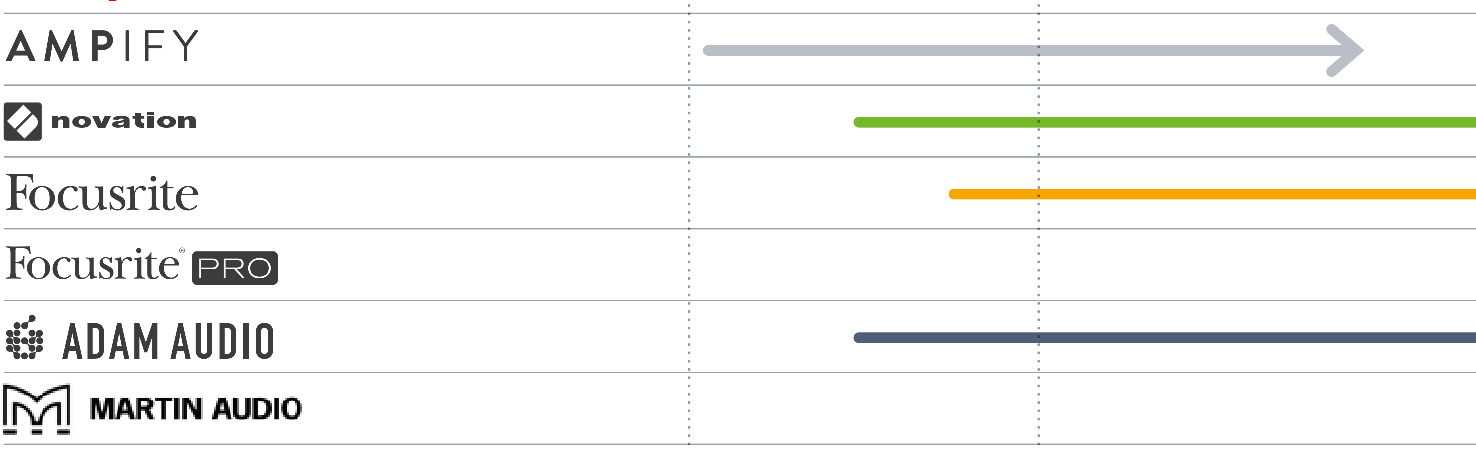
### The Passionate Maker

Market size

**£500m–£600m**

Considering themselves as artists or music makers, they feel a sense of achievement when they complete a track they can call their own. They know enough to create their music, but are hungry to improve. Unsure of the quality of their output, they're cautious about what they share, and with whom. All too often, the tracks they create remain ideas, never to be refined and polished. New music making tools excite them, though they consider these new purchases independently, not as part of a wider studio workflow.

**Brand alignment**



## The Serious Aspiring Producer

Market size

**£200m–£250m**

They aspire to be recognised as a music producer. They feel a sense of achievement when they complete a commercially viable production. Actively networking within groups of like-minded people, they're constantly honing their skills. They dream of one day quitting their day job and earning a living in music production. They're committed to a daily music routine with self-imposed deadlines. Any new purchases must contribute to the refinement of their music production process.

## The Music Master

Market size

**£200m–£250m**

They produce music for a living. They accept the deadlines and pressures that come with the job, and get a sense of achievement when their hard work receives both critical acclaim and financial success. They're proud to be part of a community that produces music for a living. Having mastered their craft, they understand that they'll always be learning. Product purchases are either professional or passion-based, but the former must have a positive impact on their workflow.

## The Facility

Market size

**£300m–£350m**

The facility is often made up of multiple decision-makers, all focused on playing their part to ensure the business's success. Every facility's requirements are unique and often complex. From the largest post-production houses and sprawling media arts campuses, to live and broadcast stages and beyond.

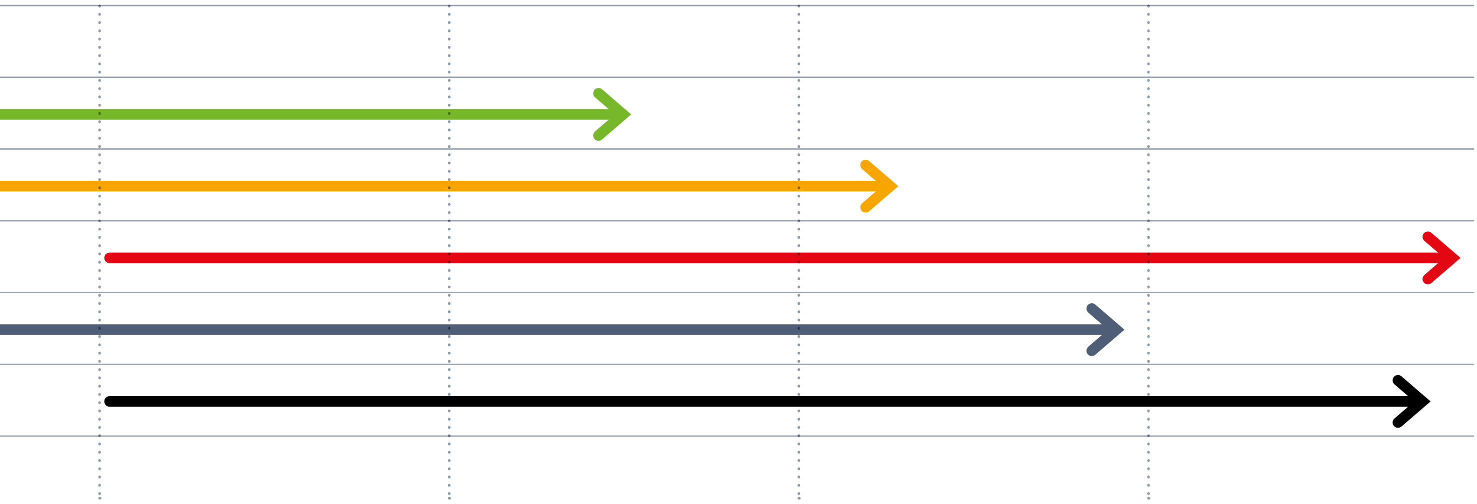
Some technology investments can make or break the business, so the stakes are high. Common is the need to have workflows and technology they can rely on.

## The Live Venue

Market size

**£2,000m–£2,500m**

The vast majority of music creators want an audience to hear their music. Therefore, there is an enormous market for both installed sound and live sound equipment used for the reproduction of music. This will include festivals, concerts, nightclubs, houses of worship and many other hospitality venues. The technology needs to give each member of the audience an exceptional sonic experience, irrespective of the size of the audience or the distance from the speaker.



## Chairman's Statement

# A global leader in music and audio products

"Thank you to all our shareholders, those who have been with us since flotation and those who have joined the register more recently, for your continued confidence in our business model and investment proposition."

**PHIL DUDDERIDGE**
**FOUNDER AND EXECUTIVE CHAIRMAN**

**Group revenue**

**£130.1m** +53.7%

**Revenue within core Focusrite business**

**£100.7m** +21.5%

I am very proud to introduce the final results for Focusrite plc for the year ended 31 August 2020, the sixth Report and Accounts since the Company joined AIM in December 2014. I am extremely pleased that once again the Company has made substantial financial and operational progress.

2020 will be remembered as the year of the COVID-19 pandemic. The Group has benefited in many respects by the growth in demand for our music and recording products, no doubt because so many people, professional musicians and amateurs alike, are having to work at home or having more time to enjoy their passion for music creation.

Our Group consists of three main businesses: Focusrite Audio Engineering, which incorporates the Focusrite, Focusrite Pro, Novation and Ampify brands; ADAM Audio, the Berlin-based studio monitor loudspeaker company acquired in July 2019, whose first full year's results as part of the Group are included in this report; and Martin Audio, acquired in December 2019, contributing eight months of revenue and EBITDA to the Group results.

Focusrite and ADAM Audio, in particular, have generated exceptional growth in the reported year and the new financial year has started well. The use of Focusrite audio interfaces has expanded with the growth of podcasting and the use of Zoom and other platforms for creative applications in music, as well as film and TV dubbing and radio entertainment where actors voice productions from home.

Martin Audio performed ahead of our internal expectations in the first three months of the calendar year before being adversely affected by the closure of the live music performance industry globally due to COVID-19, and the resulting postponement of investment by the service companies and venues that support live music. Martin Audio has nevertheless turned in a profit in FY20. It is maintaining a level of business in the installation market globally and remains ready to meet the demands of the live music industry as and when it returns to life when COVID-19 restrictions end.

COVID-19 precautions caused the companies in the Group, including their UK and overseas offices and personnel, to work from home with almost no notice. The Group proved remarkably ready to meet this challenge having invested in VoiP telephony and Zoom, as well as Netsuite ERP and other cloud-based solutions that allowed for total connectivity between the business and our people, our supply chain partners and our customers, globally. We hardly missed a beat or a moment of business activity. A large part of our workforce is involved in product development and this has continued 'at home' very successfully and effectively managed, with 11 new products being released by the Focusrite business since the March 2020 lockdown.

I would like to commend CEO Tim Carroll and CFO Jeremy Wilson for their outstanding efforts as well as that of the management teams and staff of all three Group companies, who delivered such outstanding results in the face of many challenges caused by COVID-19. I would also like to commend and thank our contract manufacturers, our logistics partners, and our distribution and retail partners for their part in meeting these challenges and opportunities this past year.

This will be the last Annual Report to have been overseen by CFO Jeremy Wilson who leaves us soon, to be replaced by Sally McKone, as announced previously. Sally trained at Grant Thornton before carrying out several senior finance roles at Electrocomponents plc and IMI plc. Sally brings valuable international experience from her career at these two highly regarded FTSE250 electronics and precision engineering groups. Sally is due to start in Q1 2021 and we are thrilled that she is joining us. Jeremy will stay until Sally arrives.

I would like to take this opportunity to thank Jeremy, who joined us in 2014 and was a key member of the team that brought the Group to the AIM market. His leadership and stewardship of the finance team, as well as his contribution to the achievement of our continued growth, profitability and cash generation has been exemplary and we shall miss him.

Finally, thank you to all our shareholders, those who have been with us since flotation and those who have joined the register more recently, for your continued confidence in our business model and investment proposition. We look forward to having the opportunity to meet you again in person, once the restrictions imposed as a result of COVID-19 are lifted.

**Phil Dudderidge**
**Founder and Executive Chairman**

# Chief Executive's Statement

## A continued focus on our strategy

"The Group has achieved another record breaking year of financial metrics, driven by organic growth and expansion in our traditional product lines along with a full year of ADAM Audio revenue and a partial year of Martin Audio."

**TIM CARROLL**
**CHIEF EXECUTIVE**

I am extremely pleased to share with you our results for the financial year ended 31 August 2020. The Group has achieved another record-breaking year of financial metrics, driven by organic growth and expansion in our traditional product lines along with a full year of ADAM Audio revenue and a partial year of Martin Audio.

FY20 was a year that required us to remain focused on our key growth objectives while carefully watching all the numerous macroeconomic issues, including COVID-19, and ensuring we were taking the correct steps to mitigate risk and, where applicable, maximise opportunity. This past year saw increased investment in people, technology and tools to ensure our roadmap plans were achievable and to help us make key decisions across the Group, driving further growth.

Our employee base has now grown to over 400 strong across the enlarged Group and we continue to invest in our people, promoting from within as well as seeking out new top talent in all divisions across the Group. Our offices now span much of the world with key locations in the UK (High Wycombe and London), Germany (Berlin), the USA (Los Angeles and Nashville), as well as Hong Kong, Mexico and Australia. Our employee base is comprised of a highly passionate group of individuals, many of whom are also accomplished DJs, musicians, audio engineers, live sound specialists and podcasters in their own right. We are very fortunate to have so many people who are passionate about music making and audio production and who bring to work real life experiences and feedback. This experience is invaluable.

COVID-19 brought many unique challenges to the Group and our individual employees. Employee wellbeing has always been a top priority and the Group rose to the challenges that COVID-19 presented: providing the tools, support and flexibility to allow all employees to work at home effectively in a short amount of time. Additionally, all office sites were re-worked to ensure proper social distancing and hygiene for the employees that have spent some time in the various offices. We are confident that we can carry on with most employees working at home and are prepared to begin bringing more employees back into the office environment when the local government guidance permits.

## Our operations

The Group's products are sold in approximately 160 territories all over the world. Our routes to market continue to be refined as macroeconomic conditions change as well as end user buying behaviours. We utilise a mix of retailers (online as well as traditional brick and mortar shops); distributors in selected countries where localisation, local support and supply to the local channel are factors; and direct to end user via our own e-commerce platform and in-app software purchases.

Last year we sold over 1.2 million physical products and had over 1.2 million downloads of our various software titles. Our manufacturing approach varies by business units. FAEL (Focusrite, Focusrite Pro, Novation and Ampify) hardware and software products are all designed in the UK and assembled in China and Malaysia. ADAM Audio products are all designed in Berlin. ADAM Audio manufactures some of their high-end products in Berlin and utilises Chinese contract manufacturing for the rest of its portfolio. Martin Audio's products are all designed in the UK, where they build a portion of their range, as well as using Chinese contract manufacturing for the remainder.

## Our market

The Group's portfolio of products and solutions service a vast spectrum of customers who have a need for high-quality audio. Our core business, up until December 2019, was focused on solutions for music and audio content creation, servicing the needs of beginners, hobbyists, and both aspiring and seasoned professionals. With the acquisition of Martin Audio, the Group added professional audio reproduction solutions that scale from portable solutions for a small band to the largest professional tours, and for permanent installations for bars, clubs, corporate, houses of worship, theatres and performance halls. Having a stake in both the production of music and audio content as well as the reproduction gives the Group a well differentiated story in that our solutions help artists through their entire journey of creating, recording and performing.

The Group is consistently seeking out ways to expand our core business and enter adjacent categories where our products and solutions are viable options for customers. To accomplish this, we continue to drive innovation organically with our in-house R&D teams, finding new routes to market and carefully considering acquisitions that are aligned with our existing activities and market segments and can help us accelerate our growth.

We actively seek out updated market research in our sectors, collating the vast amount of data from our internal efforts as well as outside resources to categorise our customers into five personae that encompass the majority of our potential customers. These personae are:

- The 'New Creator' is a customer who might have little or no music or audio recording knowledge.
- The 'Passionate Maker' is someone who may or may not play a traditional instrument but has a desire to make high-quality music or audio content, such as podcasting.
- The 'Serious Aspiring Producer' is someone for whom music and audio production is more than just a hobby and is considered a potential career path; and finally
- The 'Master' and 'Facility' personae: highly skilled musicians, audio engineers, or business entities focused on the production or reproduction of music and audio.

The art of music/audio creation and live sound production are constantly evolving crafts, with new technologies enabling workflows and enhancements that are quickly adopted and become part of the normal process. Due to this, it is imperative that the Group ensures we have our finger on the pulse of all new applicable technologies and that we understand how and where they can benefit our customers.

## Operating review of another record year

The Group has delivered another successful year of increased revenues, as well as managing our cost base closely and remaining focused on cash generation.

Revenue for the Group grew by 54%, which comprised 22% growth for the FAEL brands, plus a full year of ADAM Audio, and eight months of Martin Audio. Adjusted EBITDA increased 66% over the FY19 result.

There are many factors that contributed to this successful outcome: new product introductions; refined targeted marketing initiatives; the evolution in our routes to market approach; and continued success for both legacy products and products released in the previous fiscal year.

For FAEL, this included new products in the Novation category, refreshing the Launchpad and Launchkey ranges, continuing to expand our direct e-commerce efforts globally and material growth of our 3rd generation Scarlett interfaces that were released in late 2019.

ADAM Audio had several product introductions to round out their monitor loudspeaker offerings, moved several strategic regions to the same distribution partner as FAEL for scale, and initiated their own e-store for direct sales in targeted regions. Martin Audio launched the ADORN series, designed for installed sound markets and launched a number of new marketing initiatives, both in-house and virtual as COVID-19 became a factor, to educate and train live and installed sound engineers worldwide.

Throughout this year we have encountered a number of events, such as ongoing Brexit negotiations, US-China tariffs, and the COVID-19 pandemic, that have required careful consideration and actions to mitigate risk and where possible, maximise opportunity. While all of these events are ongoing, the Group is confident in our level of preparedness and ability to adapt where necessary.

# Chief Executive's Statement continued

| EBITDA | Adjusted operating profit | Adjusted diluted earnings per share |
|---|---|---|
| £28.6m +66.1% | £23.0m +70.0% | 32.8p +53.3% |

## Purchase of Martin Audio

In late December 2019, the Group announced completion of the acquisition of Martin Audio, our second acquisition in the 2019 calendar year, for a total consideration of £39.6 million (£35.3 million net of cash acquired). This was funded partially by existing cash and partially by debt. Martin Audio was a well-known entity to the Group, with a highly regarded management team. Additionally, Martin Audio's headquarters is located approximately one mile from FAEL in High Wycombe.

Martin Audio is a developer of both live sound and installed sound systems which are used for some of the largest live events, tours, festivals, and installed sound applications such as houses of worship, clubs and corporate audio visual. The company was founded in 1971 and since that time has earned a reputation for world class audio solutions, rallied around the mission that every member of an audience should have an exceptional sonic experience, whether that is at a concert, nightclub, house of worship or club. The Group identified Martin Audio as a strong candidate for acquisition based on its brand equity, growth, culture, roadmap and executive management team. In the first three months following the acquisition, performance for Martin Audio was very strong, beating forecasts set during the due diligence phase. However, COVID-19 has impacted the Martin Audio business negatively but, as we described in our most recent trading update, we are now seeing modest signs of recovery, specifically in the installed sound business which is the largest component of Martin Audio's revenue contribution. We remain confident of the longer term prospects for Martin Audio once COVID-19 abates.

## Impact of COVID-19

As for most companies, 2020 has proved to be a very unusual year that has witnessed dramatic impacts on many peoples' lives, as well as on many of our core solutions. Pre-COVID-19, the market was experiencing healthy growth in the various sectors in which we participate. Live and installed sound was having a very good year and there was a robust pipeline of tours, festivals, and installed sound business for the second half. Home recording was strong with many new customers purchasing Novation, Focusrite and ADAM Audio products for their music making, podcasting and streaming workflows. Professional audio and content creation were still tracking at record levels to keep up with all of the new content providers and demand from the many different music streaming services.

COVID-19 first became an issue for the Group in late January in China, when workers did not return to the contract manufacturers and warehouses as planned post-Chinese New Year. This impacted production schedules and our ability to get finished products out of the Chinese warehouses. This impact was mitigated by our second manufacturing unit in Malaysia, as the two countries were not simultaneously in lockdown. Therefore, when one unit was closed, the other was operational. Fortunately, the Chinese warehouses came back online after a short amount of time and production began to return to normal shortly after.

It was around this time when we began to see two different scenarios playing out for our businesses. Within FAEL and ADAM Audio, we witnessed a marked increase in demand for our home recording solutions. As countries went into lockdown, many people looked to music creation, podcasting, and streaming solutions for remote working and much of the FAEL and ADAM Audio portfolio caters to these workflows. The lockdown environment shifted the purchasing balance for consumers from bricks and mortar stores towards e-commerce offerings. To an extent, the damage that this caused to the brick and mortar network in many countries continues to this day. For Martin Audio, many live events such as tours and festivals began to be postponed. This was followed by many installed sound projects being delayed as well. The individual businesses responded to these unique challenges in an admirable way. For FAEL and ADAM Audio, this involved ramping up production, leveraging routes to market that had strong e-commerce capabilities, pivoting on marketing plans as trade shows closed, and focusing primarily on at home production workflows. Martin Audio's executive team acted swiftly to cut costs and focus sales and marketing energy on their installed sound portfolio, where business remained active at various levels.

Throughout all of that, the various businesses had to react to new work-at-home rules enforced by local governments; transitioning many of the employee base to remote working across most departments. Because of the leadership team's swift reaction to the changing environment combined with numerous investments we have made over the past few years in IT, enhanced systems, and new processes, the Group were able to react rapidly and effectively. Additionally, with only a few small exceptions, the committed new products for the second half were launched inside their expected time frames.

## Segmental review

### Focusrite

The Focusrite branded product family, which includes Scarlett and Clarett audio interfaces, had a tremendously strong year, achieving a 32% year-on-year increase in revenue. Demand for the ability to create high-quality music and audio content, such as podcasting in home/remote locations, was strong, especially during the COVID-19 lockdowns.

"In late December, the Group announced we had finalised the acquisition of Martin Audio, our second acquisition in the 2019 calendar year, for a total consideration of £39.6 million."

Additionally, the desire by many to have high fidelity audio for streaming services and video conferencing continued to grow and peaked during the lockdown period. Despite lockdowns having abated in most areas, we have continued to see higher than normal growth and demand for Focusrite interfaces. We will wait and see what impact the new lockdowns will have on demand in the next financial year, but at this stage it is too early to draw any conclusions.

**Focusrite Pro**

Focusrite Pro represents a suite of professional products that provide professional, exceptional quality audio and scalability for any audio workflow. The Red series, our premium line of audio interfaces, offers a multitude of connectivity options to meet the needs of any audio professional. Likewise, RedNet is the Group's AoIP set of solutions that allows large scale audio connectivity and routing over standard ethernet networks to meet any production needs. The portfolio, primarily designed for enterprise level customers and facilities across the live sound, broadcast, installed sound and post-production market, had a challenging year. As many live events were postponed or cancelled, as well as many production facilities, theatres, universities closed, a large portion of Pro's pipeline projects were delayed or in some cases, cancelled. As with Martin Audio, the Group is starting to see signs of recovery in some sectors.

Additionally, the Focusrite Pro team has a number of new products shipping in the first half of this financial year which are expected to add incremental value.

**Novation**

The Novation brand and portfolio is all about the creation and production of electronic music. Electronic music (and its many genres) continues to grow and is democratising the art of music creation. Novation offers a wide range of solutions to address these genres for everyone from the absolute beginner through to professionals. The Novation brand enjoyed several major product launches over the year, resulting in revenue growth of 9% for the year.

The Novation family of products can be segmented into controllers, grooveboxes and synthesisers. Novation controllers, which are comprised of Launchpad, our grid-based controller for both creating and performing music, and Launchkey, our family of keyboard controllers, had a strong year with 21% growth. This was fuelled primarily by new product introductions as well as some COVID-19 boost as some customers added these components to their home studios. The Novation family of synthesisers has been core to the brand since inception and have developed a reputation with electronic musicians as cutting edge, creative and versatile instruments. Our flagship synth, Summit, introduced at the end of last year, has won many accolades in the industry. The other products in the portfolio, which include Peak and Bass Station, continue to enjoy strong customer attraction and industry appreciation.

**Ampify**

Our Ampify software division, based in London, develops powerful but brilliantly simple music creation apps for iOS, Mac and Windows platforms. To date, while the revenue is modest, the Ampify apps have been downloaded more than 12.5 million times, which has proven to be a highly effective marketing net to attract new customers. Inside this year, Ampify apps were downloaded 1.2 million times, resulting in approximately 900,000 purchases of content from our in-app commerce engine. Additionally, this year marked the introduction of Ampify's first cross-platform music creation application for Mac and Windows, Ampify Studio. With a simple yet powerful user interface and a large library of content in many styles of music, Ampify Studio is the perfect music creation application for beginners and those that want to create music without a steep tech learning curve. The application is free, but also offers a subscription to the content library, which has over 10,000 samples of drums, bass, guitar, vocals, beats and effects. The library offers fresh new content every month, developed by up and coming artists in a multitude of styles and genres. Ampify Studio will continue to see feature

# Chief Executive's Statement continued

development to address the needs of our core music making customers across the Novation and Focusrite brands.

**ADAM Audio**

The Group acquired ADAM Audio in July 2019 and started to leverage Focusrite's more advanced distribution network to improve the sales of ADAM Audio products. In the first half, revenue increased 13% over the prior year, signalling the early success of this strategy. Upon the arrival of COVID-19, ADAM Audio's products experienced a substantial boost in demand, similar to that experienced for Focusrite products with the result that, for the full year, revenue has increased by 42% compared to the twelve months to August 2019, most of which was pre-acquisition. This is comfortably ahead of the plans made at the time of the acquisition. ADAM Audio and Focusrite continue to use their individual areas of expertise to benefit the other. Now ADAM Audio is the distributor of Focusrite and Novation products in Germany and Focusrite is the distributor of ADAM Audio in the UK. This uses the local network of sales, marketing and operations to serve each market. It also provides a natural means of combating potential Brexit upheaval should it arise.

In parallel with these developments, ADAM Audio continues to develop its product range with some exciting new products planned for the coming year and we are as excited as ever for them to be a part of the Focusrite plc family.

**Martin Audio**

The Group acquired Martin Audio in December 2019. Martin Audio was founded in 1971 by the innovative loudspeaker designer David Martin and the company enjoys an international reputation for supplying award-winning, patent-protected, professional audio systems across live sound and installation applications.

At the half year, revenue was up 22% year-on-year, however as explained above, it was then affected by COVID-19 with the widespread government enforced lockdowns, resulting in the cancellation of concert tours and festivals, thereby curtailing the demand for these new systems. Overall, revenue for the full year is down 26% on the prior year. However, the management team of Martin Audio has controlled costs tightly and Martin Audio has made a contribution of £1.0 million at EBITDA level.

At the same time, Martin Audio has announced 12 new products including ceiling speakers in its commercial series, ADORN, and a dedicated series for the Chinese market, DDX. In addition, it launched the company's first ever Apple iOS app for the control of its powered portable series, BlacklineX Powered. It also installed new systems around the globe including the high-profile new hotel and restaurant Nobu complex in Chicago, the multiplex Armagh Planetarium in Northern Ireland and CÉ LA VI – a new luxury dining, bar and club lounge complex in Shibuya, Tokyo.

Despite challenging circumstances during COVID-19, the company, which includes a manufacturing facility in the UK, operated safely throughout. Ultimately the Group believes that COVID-19 has caused a hiatus rather than a permanent change; the public appreciate live music and we believe that events will make a steady return, so Martin Audio has continued to invest in research and development to ensure a strong programme of new product introduction for the years ahead, tailored to changing circumstances.

## Routes to market

I am once again pleased to report that our success this year was global, with all major sales and regions experiencing growth year-on-year. A big part of our success was certainly our investment in people in the local regions and a big emphasis on localised marketing content and demand generation. Additionally, our own e-commerce store experienced record growth of 152% year over year, albeit from a relatively small base. Our direct e-commerce strategy continues to evolve as a larger part of our overall business, especially as we add more software and content offerings to our customer base.

## Regional review

**North America**

The US market, which accounts for approximately 39% of total Group revenue, grew by approximately 40% year-on-year. This includes 16% growth for FAEL brands, a full year of ADAM Audio revenue and eight months of Martin Audio. With the inclusion of the Martin Audio team, we now have an expanded team of sales and marketing professionals representing various parts of the Group's portfolio. These efforts are supplemented with a world class support team which is over 20 strong. Our offices in the USA are based in Los Angeles and Nashville with remote workers living in various states across the country.

**EMEA**

Europe, Middle East and Africa (EMEA), which represents approximately 43% of the Group's revenue, also had a successful year growing 66%. This comprised 30% growth in FAEL brands, and a full year of ADAM Audio and eight months of Martin Audio. Two-tiered distribution has traditionally been the majority of the Group's route to market for FAEL and ADAM Audio. However, this year saw a dramatic shift to direct online resellers that have continent-wide reach. This was mainly caused by many brick and mortar stores (and consequently regional distributors) closing during the various regional COVID-19 lockdowns. As more regions have come out of lockdown, the Group has seen the local brick and mortar and regional distribution business come back to normal levels.

**ROW**

The rest of the world (ROW) region comprises Asia Pacific (APAC) and Latin America (LATAM). Overall, ROW represents approximately 18% of the Group's revenue and grew 60% year over year. This included 15% organic growth for FAEL, a full year of ADAM Audio and eight months of Martin Audio.

Within APAC, the success was primarily driven by more FAEL sales and marketing professionals employed and residing in the region, more localisation efforts and some new product introductions from Martin Audio that are designed for the Chinese market.

LATAM continues to be an area of investment for the Group. This year, we added to our management team with hires in Brazil and Mexico. This team focused on local events, marketing collateral and leveraging the scale of the FAEL and ADAM Audio portfolio. The result was strong growth year-on-year for the Group's products. We recognise the region as an area of strong growth potential, through improved distribution routes to market as well as through our own e-store.



## Growth drivers

The Group remains passionately focused on being a great place for our employees to work and collectively execute on our growth strategy: growing our core base; increasing the lifetime value for our customers; and expanding into new market segments. By focusing on our employees and our customers, we will continue to innovate and grow our audience of customers across the globe. Last year saw the introduction of over 13 new products across the Focusrite business and numerous software/firmware upgrades to existing products to enable new workflows and enhance our customer's experience. For FAEL and ADAM Audio specifically, lots of emphasis is placed on the out-of-box experience and customer support systems that are in place to help customers across the globe with any challenges or questions. Inside FAEL, our new onboarding journey for Focusrite Scarlett, Novation Launchpad and Launchkey was well received by new customers, raising our Net Promoter Score (NPS) score from an already prestigious 69% to 74% this year.

As discussed previously, the development of our routes to market is an ever-evolving process and we continually look to invest in channels with higher gross margin, and initiatives that allow us to transact in local markets around the world in a way that resonates with the local end user. Our investment in Latin America is a perfect example of this: over the last year we have invested in local sales and marketing professionals across Mexico and Brazil which has netted the Group an increase of 32% in our FAEL business year-on-year. An important aspect of our growth is risk mitigation, helped greatly by the diversification of the manufacturing of the Focusrite products, and the diversification of markets in which we trade helped by the acquisition of Martin Audio.

## Summary and outlook

Our roadmap remains strong, with a number of new, innovative releases coming across this year from the various business units. Additionally, we will continue to refine and support existing products to grow our share in those spaces and enhance customer loyalty. With two acquisitions under our belt and the debt funding the Martin Audio acquisition repaid, we will also be looking for other complementary brands that we believe would be an ideal fit with the Group's strategy. Overall, even as we expand the Group and face unprecedented challenges like COVID-19, Brexit and other macroeconomic issues, our growth strategy continues to prove to be the right course for the Group.

Since the year end, demand for most of our Group products has remained high and revenue is substantially ahead of the level achieved in the similar, pre-COVID-19, period of the prior year, helped by the acquisition of Martin Audio. We remain conscious of global factors that could adversely impact our operations such as COVID-19, Brexit, and US tariffs and will continue to monitor these and other obstacles, reacting accordingly.

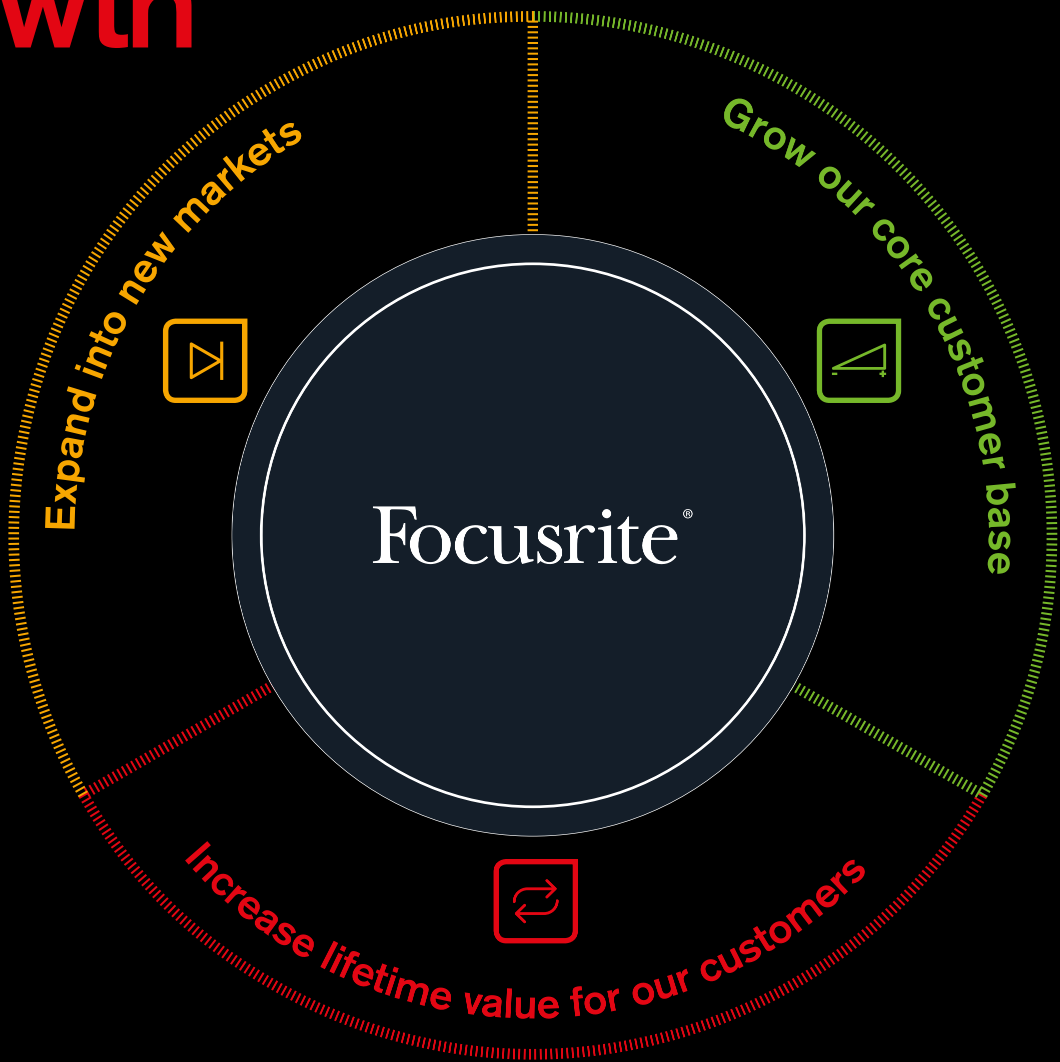
We are also aware that changes in technology and new customer requirements can emerge quickly, and many of the macroeconomic issues can impact our distribution channel and end users. We have shown over the past years that we are capable of navigating successfully through these risk factors, reacting in a measured and methodical way to protect our revenue, gross margin and cash generation.

I am extremely proud of our accomplishments this past year and remain impressed by the attitude and performance of our employees through some very uncertain times. We look forward to another year of product innovation with many new products and solutions coming to market across all three of our business groups.

**Tim Carroll**
**Chief Executive Officer**

# Our Strategy

## A resilient strategy for continued growth




Underpinned by a performance-led culture

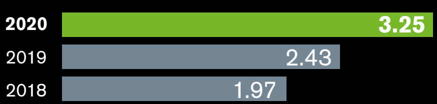
## Grow our core customer base

Across the Group's various businesses and brands, we believe there is ample growth opportunity in the core markets we serve. This is fundamentally driven by new content creators and mediums coming into the market, an increased demand for immersive audio events and experiences, and consistently adding new innovative solutions to our portfolio to maintain our existing customers and grow our wallet share with them.

The Group spends approximately 7% of revenue on an annual basis to fund research and development efforts. This is a mix of enhancing existing products and introducing new products to expand our portfolio. The net result of these efforts is a product portfolio which is both solid and reliable as well as embracing cutting-edge technology. Our various brands' recognition and reputations enable us to grow our market share at rates higher than the industry norms.

**Number of registered core users (m)**

**3.25m**




### Objectives

- Continued innovation in our core markets
- Hardware and software solutions focused on removing barriers to creativity, irrespective of the consumer's skill level
- Disruptive technologies that make our consumer creative endeavours easier and more rewarding

## Increase lifetime value for our customers

The Group strives to increase lifetime value for both existing and new customers. To achieve this we offer world class support and warranty policies, regular updates to hardware that add more features and value, and new software offerings on a regular basis that augment the creative process with new tools and functionality.

To truly understand what our customers deem as valuable, we need to stay connected to them and understand what their pain points and aspirations are. New tools such as our online onboarding journey, global tech support and virtual training and education series enable us to dial in to what our customers need most to make all of their audio aspirations come to life. The net result of this is industry leading NPS and Trustpilot reviews, both a very transparent indication of the value customers associate with the Group's various brands.

**Net Promoter Scores**

**75**


### Objectives

- Continue to learn what our customers pain points are and work to solve them
- Develop increased personal journeys and offering based on customers' requirements
- Deliver more inspirational content and tools to inspire creativity
- Cross-sell relevant solutions across our family of brands

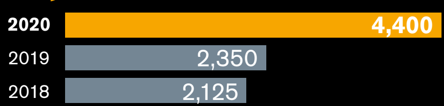
## Expand into new markets

Our focus on expansion encompasses routes to market in both mature and developing regions, marketing our products to new verticals where our portfolio is relevant, and pursuing further scale through acquisitions.

The Group continues to invest in modernised marketing tools to reach more customers across the world in their local language with content that is relatable to them. We invest in people in all major regions around the world to ensure our channel and end-users have local contact and support. Additionally, we keep a sharp eye out on new trends and content streams, such as podcasting, to ascertain where our products can serve as a viable solution in these areas. Lastly, we continue to seek out like-minded companies, such as ADAM Audio and Martin Audio, which are passionate about audio and could complement our growth strategy.

**Total addressable market (£m)**

**4,400**




### Objectives

- Continue to refine our routes to market strategy to maximise global opportunities
- Careful consideration of acquisitions
- More employees in high growth developing regions
- More focus on localised experiences for all customers
- Leverage current portfolio to enter new markets

## ADAM Audio

# More than two decades of technological innova

**For over 20 years, ADAM Audio has been an innovative leader in the professional audio community, striving to introduce new and exciting ways of bringing our customers closer to their craft.**


For over 20 years, ADAM Audio has been an innovative leader in the professional audio community, striving to introduce new and exciting ways of bringing our customers closer to their craft. ADAM Audio studio monitors are well respected across the entire range, from our budget-friendly T Series, up to the industry standard AX Series, and on to our flagship S Series, which we develop and manufacture in-house, from our factory in Berlin. This diverse portfolio expands our customer base from the bedroom producer, to the content creator, and all the way up to the veteran studio engineer. We pride ourselves in bringing decades of engineering expertise to each of these levels in the customer journey without sacrificing the reproduction quality that we have become known for.

Through this expertise came one of ADAM Audio's most distinguished features – the air-motion transformer (AMT) tweeter. While it is what ADAM Audio may be most known for, our development team is working hard to make sure that our legacy spans further than just our tweeter. The evolution of our S Series has been at the forefront of this initiative, bringing to market new technologies like our HPS Waveguide, our all new midrange drivers and our S Control software, allowing the user to take control of their monitors from their Mac or PC. ADAM Audio continues to distil these new features into both our entry-level T Series and our upcoming A Series, giving each and every user the tools to succeed. These innovations, along with the addition of our headphones and studio reference subwoofers, allow ADAM Audio to provide modern solutions for the modern age.

However, our organisation would be nowhere without the dedication and enthusiasm brought by the ADAM Audio family. Our employee base is over 70 members strong, spanning the globe from our HQ in Berlin, to the US sales and marketing office in Nashville, to our manufacturing in Tangxia, China. Our trusted distribution and dealer networks further our reach, representing the brand of ADAM Audio in more than 75 countries worldwide. The people that make up these ever-growing and diverse teams are passionate, hard-working, and focused on serving our creative customer base in the best ways they can.

In recent years, ADAM Audio has seen unprecedented growth and market share growth and, as our portfolio continues to grow and evolve with the coming addition of a revolutionary new series, we are as excited as ever to be a part of the Focusrite plc family. Thank you – from all of us here at ADAM Audio.

## Martin Audio

# Unite your audie

**Martin Audio enjoys an international reputation for supplying award-winning, patent-protected professional audio systems across live sound and installation applications. It is the recognised global leader in optimised line array technology ensuring great coverage and control of any audience space. The company was founded in 1971 by the innovative loudspeaker designer David Martin. His vision was to enable bands to play to larger audiences and be properly heard for the first time.**




The reputation of Martin Audio speakers quickly grew and soon it was producing world class touring systems for the supergroups of the day, including Pink Floyd, The Who and Supertramp.

The central philosophy of the importance of the audience experience has remained to this day. The mission is for every member of the audience to enjoy an exceptional sonic experience, whether that is at a concert, nightclub, house of worship or any hospitality venue. Our central philosophy is 'Unite Your Audience', with all Martin Audio products and solutions focused on delivering consistent sonic excellence in all applications.

Martin Audio systems can be found installed in everything from small cafés and educational facilities to large auditoria and houses of worship – supplied via our worldwide distribution network.

Alongside this, Martin Audio's client base of production companies regularly deploy temporary solutions from corporate events to the world's largest festivals such as British Summer Time, Hyde Park, and Rock in Rio, franchised globally as well as international tours for high profile bands like The Killers and Stereophonics.

Since joining the Focusrite Group, Martin Audio has announced 12 new products including ceiling speakers to its commercial series, ADORN, and a dedicated series for the Chinese market, DDX. In addition it launched the company's first ever Apple iOS app for the control of its powered portable series, BlacklineX Powered. It also installed new systems around the globe including the high profile new hotel and restaurant Nobu complex in Chicago, the multiplex Armagh Planetarium in Northern Ireland and CÉ LA VI – a new luxury dining, bar and club lounge complex in Tokyo.

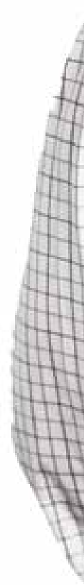
Despite challenging circumstances during COVID-19, the company, which includes a manufacturing facility in the UK, operated safely throughout and continued to invest in research and development to ensure a strong programme of new product introductions for the years ahead, tailored to changing circumstances. It also took the opportunity to create an extended raft of training materials for its sales channels alongside improved marketing materials to maximise opportunities as markets emerged from the pandemic.

# Financial Review

## Positive results

“Overall the Group has had a highly successful year, delivering organic and acquisition-related growth totalling 53.7% in revenue, 66.1% in adjusted EBITDA and 53.3% in adjusted diluted earnings per share.”

**JEREMY WILSON**
**CHIEF FINANCIAL OFFICER**



### Income statement

| | 2020 £m | | | 2019 £m | | |
|---|---|---|---|---|---|---|
| | **Adjusted** | **Non-underlying** | **Reported** | Adjusted | Non-underlying | Reported |
| Revenue | **130.1** | **–** | **130.1** | 84.7 | – | 84.7 |
| Cost of sales | **(70.2)** | **–** | **(70.2)** | (48.9) | – | (48.9) |
| Gross profit | **59.9** | **–** | **59.9** | 35.8 | – | 35.8 |
| Administrative expenses | **(36.9)** | **(15.1)** | **(52.0)** | (22.3) | (0.7) | (23.0) |
| Operating profit | **23.0** | **(15.1)** | **7.9** | 13.5 | (0.7) | 12.8 |
| Net finance income | **(0.9)** | **–** | **(0.9)** | 0.2 | – | 0.2 |
| Profit before tax | **22.1** | **(15.1)** | **7.0** | 13.7 | (0.7) | 13.0 |
| Income tax expense | **(2.9)** | **–** | **(2.9)** | (1.3) | – | (1.3) |
| Profit for the period | **19.2** | **(15.1)** | **4.1** | 12.4 | (0.7) | 11.7 |

**Revenue**

Revenue for the Group grew 53.7% from £84.7 million to £130.1 million. This included several complexities: ADAM Audio was acquired in July 2019 so FY20 includes a full year of trade compared with only six weeks in FY19. Martin Audio was acquired in December 2019, and so was included for eight months. Aside from these businesses, the core business of FAEL grew by 21.5% to £100.7 million (FY19: £82.9 million). At constant exchange rates, FAEL grew by 23.5%. The following table summarises the revenue for each year:

| | 2020 £m | 2019 £m |
|---|---|---|
| Focusrite | **76.2** | 57.7 |
| Focusrite Pro | **3.5** | 4.7 |
| Novation | **19.3** | 17.7 |
| Distribution | **1.7** | 2.8 |
| FAEL | **100.7** | 82.9 |
| ADAM Audio | **17.4** | 1.8 |
| Martin Audio | **12.0** | – |
| Total | **130.1** | 84.7 |

An additional factor in the revenue changes was the effect of the COVID-19 pandemic and the measures to manage this that were adopted by different countries. Lockdowns prevailed, thereby requiring people to remain at home, in some degree of isolation. The consequence was that people's creation of music increased substantially, leading to much higher demand for the products made by FAEL and ADAM Audio. On the other hand, live events went into hibernation and installed sound demand lessened, both of which reduced revenue in Martin Audio. While demand for Martin Audio products lessened as a result of the impact of the pandemic, we believe the product diversification that Martin Audio brings will increase the resilience of the Group in the future.

The Focusrite segment comprises the products used in the recording and broadcasting of music or voice. The primary ranges are Scarlett and Clarett. In this segment, revenue increased by 32.2% to £76.2 million, driven primarily by demand for the new, third generation of the Scarlett range.

Focusrite Pro supports 'master music makers' who produce music for a living and commercial operations such as post-production houses, live and broadcast stages and education establishments. These were also adversely affected by the COVID-19 problems and revenue decreased by 25.8% to £3.5 million.

Novation products, including Ampify, support all musicians wishing to create music with technology. The primary ranges are Launchpad, Launchkey, Circuit and the Peak and Summit synthesisers. Overall, revenue increased by 9.4% helped by the new generations of Launchpad grid controllers and Launchkey keyboard controllers.

ADAM Audio, which was acquired in July 2019, makes studio monitors of the type used by many of the Group's customers. The demand for ADAM Audio products has similar drivers to that of Focusrite and it enjoyed a marked COVID-19 boost. Revenue in FY20 was £17.4 million (FY19 (six weeks): £1.8 million). Following the acquisition of ADAM Audio, the Board decided to end the contract for the distribution of KRK monitors in the UK, as announced in the half year results, with the consequence that this distribution revenue declined from £2.8 million in FY19 to £1.7 million in FY20.

Martin Audio was acquired in December 2019 and had revenue in the period of £12.0 million.

All the major geographic regions grew for each of the major product categories. North America represents 39% of the Group's revenue and grew at 39.9% (constant currency: 40.4%) to £50.9 million. Organic (FAEL) growth was 16.4%, primarily for the Scarlett range of interfaces.

# **Financial Review** continued


EMEA represents 43% of Group revenue. EMEA grew by 65.9% (constant currency: 69.8%) to £56.4 million. The organic (FAEL) growth was 29.6% despite the decline in the distribution revenue. Again, Scarlett was important.

The ROW comprises mainly Asia and South America and represents the remaining 18% of Group revenue. Revenue in ROW grew by 59.7% (constant currency: 64.1%). Organic (FAEL) growth was 15.2% signalling the relative strength of ADAM Audio and Martin Audio in ROW. Within Martin Audio, ROW has been the first region to show signs of recovery.

Exchange rates have been largely stable this year. The Euro average exchange rate was €1.14 (FY19: €1.13). The USD has strengthened slightly from $1.29 in FY19 to $1.27 in FY20. This improves revenue but has little effect on gross profit because the majority of the cost of sales are also charged in USD.

### Segment profit

Segment profit is disclosed in more detail in note 7 to the Group's financial statements 'Business Segments'. The only major change has been the inclusion of Martin Audio upon acquisition. The revenue is compared with the directly attributable costs to create a segment profit.

### Gross profit

In FY20, the gross margin was 46.0%, up from 42.2% in FY19. This marks a continuation of the trend of improvement from the level of approximately 39% at the time of the IPO in 2014. There are several reasons for this strong improvement in gross margin: business mix (with the higher margin ADAM Audio growing and the lower margin Distribution segment declining); routes to market (with more products being sold either directly to the consumer or directly to dealers rather than via distributors); reducing discounts given to some dealers and distributors; reducing duty costs; and reducing royalties. The management of margin to get the best value out of discounts to the reseller channel remains a consistent priority.

### 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 £52.0 million, up from £23.0 million last year. This included costs relating to the acquisitions including depreciation and amortisation of acquired intangible assets, £3.0 million (FY19: nil); goodwill impairment, £10.2 million (FY19: nil) and non-underlying items, £1.9 million (FY19: £0.7 million). The goodwill impairment is explained further below. Excluding these items, administrative costs were £36.9 million (FY19: £22.3 million), a rise of 65.9% driven largely by the acquisitions of ADAM Audio and Martin Audio.

The Group's first application of IFRS 16 had a significant impact on administrative expenses. However, it had only a marginal impact on profit before tax. Rent within administrative expenses reduced and the depreciation on right-of-use assets made up for this reduction. This resulted in a £1.0m increase to EBITDA.

### EBITDA

EBITDA is a non-GAAP measure but it is widely recognised in the financial markets and it is used within the Group as the basis for some of the incentivisation of senior management within the Group. The other major metric used for the incentivisation of management is cash generation. EBITDA increased from £17.2 million in FY19 to £28.6 million in FY20, an increase of 66.1% (see table below).

| | **2020 £m Adjusted** | **2020 £m Non-underlying** | **2020 £m Reported** | 2020 £m Adjusted | 2020 £m Non-underlying | 2020 £m Reported |
|---|---|---|---|---|---|---|
| Operating profit | **23.0** | **(15.1)** | **7.9** | 13.5 | (0.7) | 12.8 |
| Add – amortisation of intangible assets | **3.7** | **3.0** | **6.7** | 2.9 | – | 2.9 |
| Add – depreciation of tangible assets | **1.9** | **–** | **1.9** | 0.8 | – | 0.8 |
| Add – goodwill impairment | **–** | **10.2** | **10.2** | – | – | – |
| EBITDA[1] | **28.6** | **(1.9)** | **26.7** | 17.2 | (0.7) | 16.5 |

1 EBITDA is defined as earnings before tax, interest, depreciation, amortisation and goodwill impairment. The items treated as non-underlying are explained in note 14.

"The wider Group has already paid off the net debt taken to buy the Martin Audio business, nearly two years ahead of schedule."

**Depreciation and amortisation**

Depreciation is charged on tangible fixed assets on a straight-line basis over the assets' estimated useful lives. 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 in line with IAS 38 and amortised in line with the life of the product, with all development costs related 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. Normally, the capitalised development costs are slightly greater than the amortisation, reflecting the continued investment in product development in a growing group of companies. During FY20, the capitalised development costs were £4.6 million (FY19: £3.8 million), compared with the amortisation of £3.0 million (FY19: £2.2 million).

**Non-underlying items**

In FY19, the Group acquired ADAM Audio and the costs associated with the acquisition were £0.7 million. In FY20, the Group acquired Martin Audio with associated acquisition costs totalling £1.8 million. These costs exclude the loan arrangement fee which is required to be shown within net debt and written back to the income statement over the life of the loan facility. In addition to these acquisition costs, the Group incurred costs of acquisition-related employee changes totalling £0.1 million. Non-underlying items also include amortisation of the intangible assets acquired from ADAM Audio and Martin Audio (£3.0 million). See note 14 to the Group's financial statements.

At the time of the acquisition of Martin Audio, the goodwill was assessed at £12.6 million. Since then the COVID-19 pandemic has materially affected the revenue of Martin Audio. The Board has considered the impact of the consequential lockdowns on the industry and, despite a clear belief that the live sound market will recover in the foreseeable future, this will take time and there is uncertainty over the impact on future margins and hence an increased forecasting risk following COVID-19. Consequently, the Board, based on management's estimate of recoverability (note 18 to the Group's financial statements), have recognised an impairment of £10.2 million. Notwithstanding this impairment, Martin Audio has been profitable in the eight months since acquisition and the wider Group has already repaid the net debt incurred to buy the Martin Audio business, nearly two years ahead of schedule.

**Foreign exchange and hedging**

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

| Exchange rates | 2020 | 2019 |
|---|---|---|
| Average | | |
| USD:GBP | **1.27** | 1.29 |
| EUR:GBP | **1.14** | 1.13 |
| Year end | | |
| USD:GBP | **1.34** | 1.22 |
| EUR:GBP | **1.12** | 1.11 |

The average USD rate has strengthened slightly from $1.29 to $1.27. The USD accounts for over 50% of Group revenue but over 80% of cost of sales so this increases the revenue but makes little difference to the absolute gross profit.

The Euro comprises approximately a quarter of revenue but little cost. Since the acquisition of ADAM Audio and Martin Audio, these currency movements have been reassessed. There is no material change, so the Group has continued entering 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 2021) and approximately 50% of the Euro flows for the following financial year (FY22). In FY19, 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 FY20, the equivalent hedging contracts were at €1.11, again close to the transactional rate of €1.14 and so creating a blended exchange rate of €1.12.

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.

Elsewhere, within Finance Income and Finance Costs, there is the interest paid on the revolving credit facility taken out to fund the acquisition of Martin Audio.

**Corporation tax**

Historically the effective corporation tax rate as a proportion of profit before tax has been 10-12% due largely to enhanced tax relief on development costs. In FY19, the corporation tax charge was £1.3 million on reported profit before tax of £13.0 million.

In FY20, the corporation tax charge totals £2.9 million on reported profit before tax of £7.0 million. This substantial increase in effective tax rate is due to the assumed disallowance of goodwill impairment, amortisation of acquired intangible assets and the non-underlying acquisition costs. Excluding these, the adjusted profit before tax was £22.1 million, therefore the tax charge as a proportion of the underlying profit before tax is 13.3%.

# Financial Review continued

The Group has long been considered a small or medium-sized enterprise ('SME') for the purposes of research and development relief in UK. From FY21, this is expected to change to the Research and Development Expenditure Credit ('RDEC') basis of relief in which the Group receives smaller credit to operating costs and the profit is then taxed at the headline rate (19% in UK). Therefore, the effective tax rate is expected to rise to approximately 19% in the next financial year.

**Earnings per share**

The basic EPS for the year was 7.1 pence, down 65.2% from 20.4 pence in FY19. This decrease has been caused by the goodwill impairment, the amortisation of acquired intangible assets and non-underlying costs. The more comparable measure of the growth of the trading profits including the dilutive effect of share options, is the adjusted diluted EPS. This grew to 32.8 pence, up 53.3% from 21.4 pence in FY19.

| | 2020 pence | 2019 pence | Growth % |
|---|---|---|---|
| Basic | **7.1** | 20.4 | (65.2)% |
| Diluted | **7.0** | 20.1 | (65.2)% |
| Adjusted basic | **33.2** | 21.7 | 53.0% |
| Adjusted diluted | **32.8** | 21.4 | 53.3% |

## Balance sheet

| | 2020 £m | 2019 £m |
|---|---|---|
| Non-current assets | **52.3** | 25.7 |
| Current assets | | |
| Inventories | **19.4** | 15.2 |
| Trade and other receivables | **18.0** | 18.2 |
| Cash | **15.0** | 15.5 |
| Current liabilities | **(26.0)** | (16.9) |
| Non-current liabilities | **(21.8)** | (4.3) |
| Net assets | **56.9** | 53.4 |

**Non-current assets**

The non-current assets comprise: goodwill (£7.9 million); other intangible assets (£40.4 million) and property, plant and equipment (£4.0 million). The goodwill of £7.9 million (FY19: £5.3 million) relates to acquisitions as follows: £0.4 million for Novation purchased in 2004, £5.1 million for ADAM Audio purchased in July 2019 and £2.4 million for Martin Audio purchased in December 2019.

The other intangible assets (£40.4 million) consist mainly of capitalised research and development costs and acquired intangible assets relating to product development and brand. The capitalised development costs have a carrying value of £26.0 million (FY19: £10.7 million). This increase of £15.3 million comprises the excess during the year of capitalised development costs over the amortisation (£1.6 million) and acquired capitalised development costs (consisting of acquired designs and designs in development with a year end net book value of £13.8 million). Approximately 66% of development costs are capitalised and it is intended that they are amortised over the life of the relevant products.

In addition, the remaining intangible assets, totalling £14.4 million, include brands acquired as part of the acquisitions of ADAM Audio and Martin Audio with a carrying value at 31 August 2020 at £13.2 million (to be amortised over ten years for ADAM Audio and 20 years for Martin Audio).

**Working capital**

At the end of the year, working capital was 8.8% of revenue (FY19: 20.2%). This is much lower than the historic norm of approximately 20%. The reason for this was primarily that stock at the year-end was very low as a result of the substantial increase in demand, over and above what could be manufactured quickly. Manufacturing capacity has been increased substantially and it is expected that this stock will be replenished during FY21. In addition, the Group, in this period of particular uncertainty, placed great emphasis on the timely collection of debts. Consequently, overdue debtors, especially within FAEL, have been very low. Creditors continue to be paid on time.

The working capital at ADAM Audio has consisted largely of stock with relatively low debtors. Over time it is expected that the Group will allow higher working capital in ADAM Audio to help facilitate further revenue growth.

Within Martin Audio the stock and debtors have been higher and management are considering how this could be reduced in future.

## Cash flow

| | 2020 £m | 2019 £m |
|---|---|---|
| Cash and cash equivalents at beginning of year | **14.9** | 22.8 |
| Cash and cash equivalents at end of year | **15.0** | 14.9 |
| **Net increase/(decrease) in cash and cash equivalents (per Cash Flow Statement)** | **0.1** | (7.9) |
| Add – equity dividends paid | **2.3** | 2.0 |
| **Free cash flow[1]** | **2.4** | (5.9) |
| Add – non-underlying cash outflows: | | |
| Acquisition of subsidiary (net of cash acquired) | **35.3** | 15.3 |
| Bank loan (net of arrangement fee) | **(11.6)** | – |
| Non-underlying items (cash outflow) | **2.1** | 0.8 |
| **Underlying free cash flow** | **28.2** | 10.2 |

1 Defined as net cash from operating activities less net cash used in investing activities less the amount of the revolving credit facility utilised.

In FY19, the net cash balance at the year-end was £14.9 million. In December 2019, the Group bought Martin Audio for £35.3 million plus £4.3 million of acquired cash and £1.8 million of acquisition costs. This was funded by a £40 million revolving credit facility lasting up to five years. The facility was provided by HSBC and NatWest. Consequently, at 29 February 2020, there was a net debt balance of £19.9 million.


"In my final Annual Report, I wish to thank the Board, advisers, shareholders and, above all, colleagues for a thrilling and rewarding six years at Focusrite."

During the second half, the strong increase in revenue contributed to both higher profits and lower stock. Therefore the underlying free cash flow for the full year was £28.2 million (FY19: £10.2 million) leading to a year end net cash position of £3.3 million. Within this, the movement in working capital was an inflow of £13.7 million (FY19: outflow of £2.2 million). With the intended rebuilding of stock within the Group in the next financial year, and further business growth, there will be a marked outflow of working capital.

## Dividend

The Board is proposing a final dividend of 2.9 pence per share (FY19 final dividend: 2.6 pence), which would result in a total of 4.2 pence per share for the year (FY19: 3.8 pence). This represents an adjusted earnings dividend cover of 7.8 times (FY19: 5.6 times).

## Summary

In my final Annual Report, I wish to thank the Board, advisers, shareholders and, above all, colleagues for a thrilling and rewarding six years at Focusrite during which we have undertaken an IPO and then grown the Group substantially from an initial market capitalisation of £73 million.

The Group has had a year with several significant achievements in a uniquely challenging environment: the acquisition of Martin Audio in December 2019 and repayment of the acquisition cost in only eight months; the increased alignment of ADAM Audio (bought in July 2019) leading to growth at a greater rate than was planned upon acquisition; and substantial growth in FAEL as lockdowns increased the audience for Focusrite and Novation products. I am confident that the Group will continue to grow from strength to strength in FY21 and beyond under the continued leadership of Tim Carroll and chairmanship of Phil Dudderidge. I wish them and my successor, Sally McKone, continued success in the future.

**Jeremy Wilson**
**Chief Financial Officer**

# Principal Risks and Uncertainties

**Effective risk management is a priority for Group in order to sustain the future success of the business. Therefore the Board has overall responsibility for the Group's risk management process but has delegated responsibility for its implementation, the system of internal controls which reduce risk and for reviewing their effectiveness to the business leaders best qualified in each area of the business.**

The risks and uncertainties that the Group faces evolve over time, therefore the business leaders review the risk register in order to monitor key risks, identify emerging risks and update mitigation efforts. The results are reported to the Board.

### Approach to risk management

RISK IDENTIFICATION AND ASSESSMENT

ENTRY INTO THE GROUP'S RISK REGISTER

REGULAR REVIEW AND MITIGATION STRATEGY BY BUSINESS LEADERS

AUDIT COMMITTEE AND BOARD REVIEW/APPROVAL

### Risk identification and assessment

Risk management is a continuous process that is coordinated by the legal team which reports its findings to the Audit Committee and Board regularly. Each business leader is responsible for updating the risk register and for identifying, analysing, evaluating, managing and monitoring the risks and emerging risks in their respective areas.

The risk register reflects the significant Group-level key risks identified and is prepared using consistent risk factors and an impact and likelihood evaluation.

The risk register includes key controls, mitigating activities and/or controls and action plans in respect of the principal risks which form the basis of the principal risks and uncertainties disclosed in this report.

### Review, challenge and control

The Group operates a half yearly cycle of risk and control assessments. During this review, the business leaders consider and report on any emerging risks in the near future and in the longer term.

The risk register is considered by the Board at least annually. At that time they also review the principal risks of the business and evaluate the effectiveness of the risk management and internal controls systems.

### Risk appetite

Where a risk cannot be eliminated the Group's risk management framework is designed to identify and manage the risk of failure to achieve business objectives.

In determining its appetite for risk, the Group ensures that risks are consistent with its financial objectives and values. For example, the Group's financial disciplines ensure that each brand makes net margins which are sufficient to provide for the vagaries of a consumer facing business.

### Board review

During the year, the Board carried out a detailed evaluation of the effectiveness of the risk management and internal controls systems for all parts of the business. This covered all material controls including financial, operational and compliance controls, and the Board is satisfied that they have been operating effectively for the financial year to 31 August 2020 and up to and including the date of this report. The business will continue to review opportunities to mature, strengthen and improve the effectiveness of these systems. No significant failings of internal control were identified during these reviews.

During this financial year there have been two major challenges that have dominated the Group's consideration of risk: Brexit and COVID-19.

### Emerging risks

As part of the ongoing risk management, the business leaders identify emerging risks and assess their potential impact on the business. During the review process this year, the business leaders were asked to consider emerging risks in light of the changing shape of the Group, the challenging trading and other external factors such as environmental effects.

## Brexit

Following the UK's departure from the EU on 31 January 2020, the UK entered a transition period which is scheduled to end on 31 December 2020. Until that date, the UK will effectively remain in the EU's customs union and single market, therefore there will be no impact on the Group during this period.

The Group had established a Brexit working group in 2019 to analyse Brexit-related risks and operational challenges to our business and their potential impact. A large proportion of product is shipped directly from the manufacturer to the distributors, particularly in the USA 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 in the period following the exit. The Group is well placed for all the necessary arrangements to be in place by 31 December 2020 if no new trade deal is agreed. Provided that the Group's logistics partners can continue to operate, the Group does not believe that the risks of a no-deal Brexit pose a material threat to the ongoing operations and profitability of the business.

## COVID-19

Unsurprisingly, a summary of the risks that COVID-19 poses to the business and the actions being taken feature highly in this risk report. When the pandemic first occurred in China, the initial threat was to the Group's manufacturing operations and Asian supply chain. Whilst this remains a key risk, it is now clear that currently by far the greatest challenge the Group faces is the risk to demand. As the pandemic is unprecedented there is no way of predicting the extent of the effect COVID-19 will have on our customers' retail and online sales, and what the short, medium and long-term effect of the pandemic will be on consumer behaviour.

The evidence we have seen from sales to date is that:

- Demand will be the biggest issue. Whereas the Martin Audio group has seen a significant drop in sales due to the cancellation of live sound events, the ADAM Audio and Focusrite businesses are enjoying record demand and therefore the availability of components is key to those groups' ability to satisfy demand.
- Some products are likely to fare better than others: to date, home audio equipment has grown substantially while the pro audio equipment ranges have declined.

The Group's working practices have been challenged as the pandemic has developed. Measures to protect our employees, comply with differing levels of governmental restrictions and cope with illness throughout the business have been designed to ensure vital operations and projects remained on track. Trade shows where the Group would previously have exhibited its new products have been cancelled and so the Group has had to increase its marketing activities, use of video conferencing and online inspiration in order to reach its audiences.

As in all sectors, the music industry continues to experience profound and lasting structural changes. The Group expects the pandemic to accelerate the transition away from brick and mortar retail to online shopping therefore our efforts to learn new ways to serve customers, collaborate with partners and create value for our shareholders continue.

## Assessment of principal risks and uncertainties

In addition to the more detailed consideration of Brexit and COVID-19, the business leaders have carried out a robust assessment of the principal risks and uncertainties facing the Group, including any emerging risks, and those that would threaten its business model, future performance, solvency or liquidity. Certain changes have been made to the principal risks and uncertainties reported in the previous year as a result of this assessment.

- 'Economic environment' has been augmented to 'business strategy development and implementation' to reflect the Group's continued growth in an uncertain world.
- 'Customer concentration' and 'channels to market' have been merged into 'Customer facing systems' so as to cover the risk that the Group fails to adopt and make effective use of new technologies which will enable the Group to reach and serve its customers well.
- Following the Group's statement that it has taken steps to mitigate the risk of a no-deal exit from the EU and its subsequent assessment that the risk is not significant in last year's Annual Report, 'Brexit' has been removed from the principal risks.
- 'USA import tariffs' have been removed from the principal risks as the Group has established an alternative manufacturing plant from which products manufactured do not attract import tariffs.
- Within the risks associated with product supply, there remains a risk of component shortages which could disrupt, or increase the cost of, the manufacture of the Group's products.
- The principal risk of 'Information security' has been expanded to incorporate data privacy, business continuity and cyber risk.
- The Group has made considerable progress in strengthening its talent pipeline and succession plans so the 'People' risk relating to the dependency on attracting, retaining and motivating highly skilled and experienced personnel is a decreasing risk in the list of principal risks.
- Whilst the Group remains exposed to currency and exchange rate fluctuations which may affect revenue and costs when reported in GBP, it has taken steps to mitigate this as a risk, as reported in the previous year's Annual Report, therefore currency fluctuations has been removed as a principal risk.
- Climate change has not been assessed as a principal risk as business interruption insurance is in place, and our suppliers are deemed to have adequate experience in dealing with typhoons and other natural disasters.
- Reputational risk is not in itself a principal risk but is a key factor in evaluating all principal risks.

# Principal Risks and Uncertainties continued

| Risk | Description | Mitigation |
|---|---|---|
| Business strategy development and implementation | In these uncertain times, adopting the wrong business strategy or ineffectively implementing a strategy may result in the business suffering. Therefore the Group needs to understand and properly manage strategic risk, taking into account sector specific risk factors (which differ between the different brands in the business), in order to deliver long-term growth for the benefit of the Group's stakeholders. | • The Group reviews its business strategy on a regular basis (through virtual off-site meetings) to determine how sales and profit can be maximised, and business operations made more efficient<br>• The Executive Directors provide regular updates at Board meetings, which are challenged by the Non-executive Directors, relating to initiatives and their progress<br>• The varying brands within the business provide geographic and product diversity<br>• A disciplined approach to sales, budgeting and cost control is taken in order to ensure the company can generate strong profits and cash flow<br>• Business leaders consider strategic risk factors, wider economic and industry specific trends that affect the competitive position of its products<br>• The Group has a detailed plan for the business going forward |
| Product innovation | The market for the Group's products remains characterised by continued evolution in technology, evolving industry standards, changes in customer needs and frequent new competitive product introduction therefore the Group's success depends on designing and selecting products that customers want to buy, at appropriate price points and stocked in the right quantities. Failure to meet the design, quality and value expectations of customers, in the short term, will result in surplus stocks that cannot be sold/sell slowly/are sold for less profit and in the longer term will adversely affect the Group's brand reputation. | • R&D continues to be one of the Group's largest investments<br>• The Group continually reviews:<br>(i) the design and performance of its product ranges; and<br>(ii) trends within the industry and from influencers<br>• Innovation has been bolstered by the appointment of a Head of Product and teams dedicated to product refreshes<br>• Product owners approve quality standards, with in-house quality control and testing teams in place across all brands |
| Product supply | The Group relies on a small supplier base, concentrated in China and Malaysia, to deliver products on time and to the Group's required quality and ethical standards. Failure to supply could result in an inability to service customer demand or adversely affect the Group's reputation.<br><br>These suppliers depend on a reliable supply of components and there remains a risk of component shortages which could disrupt, or increase the cost of, the manufacture of the Group's products. | • Stock availability is reviewed on an ongoing basis and appropriate action taken where service or delivery to customers may be negatively impacted<br>• Management continually seeks ways to solidify the relationships with our suppliers to ensure their focused attention and maintain the quality of products<br>• Management review component supply and maintain close relationships with the component manufacturers. The Group also reviews single source components and, where possible, designs in multiple compatibility<br>• Employees are trained and communications sent to suppliers regarding our expectations in relation to anti-bribery and modern slavery<br>• The Audit Committee receives an annual report into modern slavery and anti-bribery training and a whistleblowing report at each meeting. Significant matters are reported to the Board |

| Risk | Description | Mitigation |
|---|---|---|
| Customer facing systems | By customers, the Group refers to the resellers and distributors with whom it works to take our products to the markets. The Group's performance depends on the engagement, recruitment and retention of those customers, and on their ability to drive and service customer demand, particularly in markets where the Group operates via a single distributor or has large individual reseller customers.<br><br>There is a risk that the business fails to adopt and/or make effective and efficient use of new software, hardware and mechanisation to provide its customers with service levels that allow them to meet or exceed end users' expectations. These systems, software and platforms are ever changing, as technology evolves. A failure of or breakdown in the relationship with a key reseller or distributor, or even the failure of a major customer of a distributor, could significantly and adversely affect the Group's business. | • The Group has documented arrangements with its resellers and distributors to ensure they are holding sufficient stock levels and are motivated to promote the brands. Relationships are long-lasting and strong<br>• Resellers are expected to be able to offer in-store as well as online experiences for users<br>• The Group has increased its direct to market offering and plans for further expansion in the coming year<br>• Continued investment in technology which supports the Group's e-commerce store has led to growth in the Group's direct to consumer offering<br>• There is also continual development and monitoring of performance of the Group's NPS, with a particular focus by the customer support team on improving the user experience<br>• The Group also works with influencers to promote its brands throughout the industry |
| Information security, data privacy, business continuity and cyber risk | The unencumbered availability and integrity of the Group's IT systems is ever critical to successful trading. The Group continues to invest heavily in order to ensure a system that can record and process substantial volumes of data, prevent obsolescence and maintain responsiveness.<br><br>The threat of a cyber security breach, or an unauthorised or malicious attack is an ongoing and increasingly sophisticated risk that the Group believes would negatively impact its reputation. Similarly, the inadvertent processing of customer or employee data in a manner deemed unethical or unlawful could result in significant financial penalties, remediation costs, reputational damage and/or restrictions on our ability to operate. The Group is noticing:<br>• a changing attitude by global users towards their data and how it is used<br>• increasingly complex and fast-evolving data protection laws and regulation<br>• rapid technological advances delivering an enhanced ability to gather, draw insight from and monetise personal data | • The Group has a Privacy Council to operationalise privacy protection in key risk areas. Its main activities include raising awareness of data protection as well as monitoring key risks, activities and incidents<br>• The Group has made significant investment into its systems' development and security programmes throughout the year and strengthened its in-house information and security resources<br>• Systems vulnerability and penetration testing is carried out regularly by both internal and external resources to ensure that data is protected from corruption or unauthorised access or use<br>• Critical systems backup facilities and business continuity plans are reviewed and updated regularly<br>• Major incident simulations and business continuity tests are carried out periodically<br>• IT risks are managed through the application of internal policies and change management procedures as well as enshrining security requirements and service level agreements on third-party suppliers in contractual documentation<br>• The Group's data protection and information security policies are mandatory reading and are kept under regular review<br>• The Group has prepared a roadmap to address gaps between current and target risk exposures |
| Intellectual property | The Group relies on intellectual property and other proprietary rights which may not be always be adequately protected under current laws or which may be subject to unauthorised use. | • The Group has an ongoing programme to support appropriate protections of all intellectual property and other proprietary rights<br>• The Group takes action against all known infringements and documents the terms on which it will allow the use of its registered rights<br>• The Group has also hired an experienced intellectual property lawyer who is designing an active programme to protect our intellectual property rights |

# Principal Risks and Uncertainties continued

| Risk | Description | Mitigation |
|---|---|---|
| People | People are critical to the Group's ability to meet the needs of its customers and end users and achieve its goals as a business. This requires the continued service of senior managers and technical personnel as well as our ability to attract, motivate and retain highly qualified people.<br><br>There is an increased risk of short and long-term staff absence due to illness during the COVID-19 pandemic. | • Making Focusrite a great place to work is central to the Group's strategy<br>• The Group champions diversity and inclusion and is building ways in which to develop talent through a number of activities, including apprenticeships and a leadership programme<br>• The Group has well established recruitment channels and procedures to recruit and retain people<br>• The Board considers the development of senior management to ensure there are opportunities for career development and promotion<br>• The Remuneration Committee reviews Executive Director and senior management remuneration at least annually and formulates packages to retain and motivate these employees, including long-term incentive schemes<br>• The Nomination Committee considers and reviews the skills, diversity, experience and succession planning of the Board. There is also detailed work on broader succession planning which includes wherever possible named short-term cover for key roles<br>• Extensive efforts have been made to cater for individual staff needs during the pandemic, including enabling people to work from home, and to work safely on Group premises if they need to |

## FORWARD-LOOKING STATEMENTS

Certain statements in this Annual 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.

# A great place to work

Mental health first aiders created

**20**

'Best Companies to Work For' rating

**2☆Outstanding**

## Our People

**We recognise the social importance and impact of our business on both our people and our customers, and have strived to make advancements in areas such as diversity and inclusion, charity and sustainability. These are becoming more of a feature of interest and will be key to retaining and attracting the talent to aid our growth.**

New generations of people are coming into the workforce and new customers onto the market. With that brings new points of view, needs and expectations. We cannot ignore this. Innovation is part of our DNA and creating an environment in which we can learn from others to help us build long-term success is critical.

Most importantly, in a year where the workplace has changed for most of us, what we do can and does influence the employee experience and, therefore, this has been at the forefront of our minds.

### Employee experience

Our aim is to be a 'great place to work' so we have focused on developing several key areas this year. The experience of our people is what drives our success, and this means having a positive experience of Focusrite from the first day they meet us all the way through their careers.

Our onboarding process has been immensely improved by moving it online, enhancing the experience for our new joiners and speeding up the entire process.

With a new induction process and 'welcome pack' covering the essentials of the business, through to localised onboarding plans, we aim to make the introduction to Focusrite as seamless as possible.

Development for our people expanded this year with our desire to ***keep learning***. With investments into more e-learning modules, Linkedin Learning access, training courses and customised workshops, we have been able to ensure all our people have felt developed over the year in ways which are important to them. For our leaders, we introduced our first Leadership Programme which is aimed at developing awareness of leadership style for both direct management and those who manage through a matrix structure. We have also continued with our 'new and aspiring' management training for those new to Focusrite and in the early stages of a management career path. This year we have introduced an executive coach who works with a variety of individuals in the business to support growth and development.

# **Sustainability** continued

"Great people who love the products we make. Excellent support package and social support schemes – free canteen, social events, subsidised music lessons, generous employee share options scheme, etc."

Our bespoke performance appraisal process (My Focus) has completed its first full year which has enabled managers and team members to really ***own it*** and have more regular and focused development conversations around goals and objectives and career aspirations. Using our new 'behaviours framework' we have been able to shift the conversation onto 'what we do' and 'how we do it' and started to build a language of feedback.

We continued with our wellbeing initiatives this year which included taking part in Red January, celebrating Mental Health Awareness Week, the creation of 20 Mental Health First Aiders and all our people leaders having the opportunity to attend workshops on building stronger skills around mental health awareness.

Over the last 12 months we have also embarked on a global remuneration benchmarking exercise where we have been able to identify where some gaps existed in remuneration and create a plan of action to implement changes. This process has also been the launchpad for commencing work on our new 'career framework'. Whilst in the early stages, this framework will allow us to clearly identify how people can develop within the business and the opportunities they have to build on their careers.

Communication has been paramount this year and we have continued to build on the use and functionality of the internal intranet site, 'The Hub', for much of our communication. We have also enjoyed a summer of video blog updates from Tim Carroll to keep everyone informed of business performance through a very busy time. We have also now embedded our 'People Forum' within the business, featuring some of those who have taken an active role in shaping management of the initiatives that have been put in place, including the enhancements of our 'family friendly' policies, charity support, onboarding process and general communication.

### Experience survey

We have achieved a 'Best Companies to Work For' 2 Star rating ('Outstanding') for 2020 and made it to the 'Top 75 Regional Companies to Work For' (South East) but we wanted to be bold in our ambitions and implement an employee experience survey designed by our people. In April 2020, we worked with Hive to set up our new 'employee experience' survey.

The survey was customised based on what our people feel is most important to them with workshops carried out to establish key drivers of engagement and experience. In advance of the survey going live, we carried out webinars to upskill our people and raise awareness of what is meant by engagement and experience to ensure our people knew the value we were placing in hearing their feedback.

Our results show an 'outstanding' rating with the e-Net Promoter Score of +43. We didn't stop there; we have since been sharing results and discussing ways that we can improve even more with the aim of moving from 'good' to 'great'.

We gained some essential insight into where we should focus on future development and have developed a company action plan which is owned by the Focusrite Board for implementation.

### Our response to COVID-19

This year the obvious challenge has been in relation to the reaction to lockdown due to COVID-19.

In the weeks approaching lockdown we were preparing ourselves by ensuring that our people were well briefed on how Focusrite was reacting to the changing COVID-19 landscape. We created policies around how travel, working from home, and ways of working would be changing and created a task force of key stakeholders to meet daily to ensure we were following the guidelines, prioritising keeping our people safe and keeping communication open.

This was a time where ***pulling together*** was the priority to ensure success.

We were very well positioned to move people to home working almost overnight. The technology that had recently been introduced had allowed us to transition seamlessly into the new ways of working. Our people have expressed very positive feedback in how we adjusted to the change.

Similarly, as the landscape evolved, so did we. Having a clear return to work plan focusing on those whose roles were hindered most by working from home and those who would benefit from being back in the working environment from a wellbeing perspective.

We have also worked hard to be COVID-19 Secure, keeping the welfare of our people in mind and not rushing into any return to normal. We have carefully created a phased plan which has been implemented along with all the workplace adjustments required such as screening, signage and sanitiser.

### Commitment to diversity and inclusion

We have progressed our approach to diversity and inclusion this year. We have refocused our efforts on how we are taking an active role in developing awareness of diversity and inclusion within the business staying true to our position as an audio / music making organisation.

We have now formed the 'Focusrite Diversity in Music' team which are focusing on selected areas of inclusion including, Pride in Music, Race and Ethnicity in Music and Gender Balance in Music. These groups are made up of people from all around the globe representing many diverse groups. In line with our mission of 'removing barriers to creativity' we aim to remove all barriers for our people, so everyone feels they have a place and a voice within Focusrite.

"I have never been happier in my work. The positivity, culture, product, history, people, corporate responsibility, commitment to professionalism, integrity and results. Visible senior management, non-hierarchical decision-making, free lunch."

We are still learning and growing in this area so expect to see this develop across the next year, but we believe we have the right structure in place to really succeed in creating a great place to work where our people feel safe and respected and able to achieve.

In addition, we are pleased to report continued success on reducing the gender pay gap at Focusrite for our third year in a row.

### Supporting others

We have several ways that we support those outside of Focusrite.

We continue with our long-term relationships with external charities such as Music Crossroads. The Focusrite / Music Crossroads programme is continuing to contribute positively to young talented musicians' livelihoods by providing access to music education. There are currently 16 scholarship beneficiaries studying at the Music Crossroads Academies in Malawi, Mozambique and Zimbabwe; seven in the first year and nine in the second year of the professional certificate programme. We recognise the challenges this year with COVID-19 but have been pleased to see the transition to working online has been put in place for these scholarship students.

We have opened up the ability for new longer-term charitable relationships to be formed by creating a nomination process for anyone in Focusrite to suggest a partner that we could work with and support. This year has seen us creating music to raise money to support the NHS during the COVID-19 crisis, supporting organisations focused on helping girls, women, trans and non-binary people in London to learn music making and performance, plus many other people-driven music sponsorship activities.

There is also the regular 'fund matching' process which enables all fund raising to be matched by Focusrite.

In addition to charities, we are also pleased to continue to offer a large number of work opportunities for placement students. During this year, we supported 12 placements in areas such as engineering, marketing and customer services, providing them with truly involved roles where they feel they can make a difference.

We know the challenges in 2020 have been extreme when it comes to our people, both at work and at home, and the impact of COVID-19 will continue for some time to come. However, we are positive that we can continue to help our people thrive by listening to their feedback, adapting to new methods of working and continuing to enrich all lives through music!

## **Sustainability** continued

# Committed to acting respon

# Our Planet

**We seek to become environmental sustainability leaders in our industry, setting the standards that peers strive to emulate.**

In FY20, the Green Team at Focusrite has been kickstarting our sustainability efforts and establishing a baseline of where we are so we can put a stake in the ground and move forwards.

### Our policy

**Our opportunity**

As an equipment manufacturer with a worldwide reach, we are aware that our very existence contributes to factors affecting climate change.

Climate change requires rapid and urgent action across all sectors of society, and we appreciate the need to address the ecological emergency if we are to play our part in limiting global warming. As a global leader in the audio industry, environmental sustainability is a major opportunity for the Focusrite Group to demonstrate climate leadership and values, define good environmental practice, and benefit from an opportunity to meaningfully engage with our staff, customers, and the wider audio community.

**Our approach**

We are joining the growing community of leaders committed to taking bold, strategic action on climate change aligned to the United Nations Paris Agreement, the international framework for 'limiting global warming to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial level'. We are committed to creating and fostering a sustainable ethos – demonstrating and amplifying good practice while inspiring our staff, customers and partners to action.

Our approach to environmental sustainability extends to our complete operation, aiming to embed us within the circular economy, requiring collaboration with the entirety of our value chain and beyond. In the future, we look forward to leading and educating the broader music technology sector, and setting a standard for sustainable practices within our industry.

To guide our work on this journey the Group will be adopting the following environmental approach:

**1. Establish a plan**

Laying out a clear set of actions for how we will achieve our aims.

**2. Engage our people**

Defining environmental roles and responsibilities across the organisation with opportunities for environmental training and development where needed.

**3. Deepen understanding**

Developing understanding of our environmental performance and impacts so we can define meaningful targets, take informed action and track our progress over time.

**4. Communicate and educate**

Sharing what we are doing to shape a better environmental future and involving key stakeholders in the process.

# sibly

> "In FY20 the Green Team at Focusrite has been kickstarting our sustainability efforts and establishing a baseline of where we are so we can put a stake in the ground and move forwards."

Our senior management team is responsible for ensuring our environmental policy becomes a meaningful document to guide our journey toward better environmental responsibility. Our Green Team is responsible for supporting environmental action, communication and engagement across the organisation. Focusrite are working to define a long-term environmental strategy, embedding environmental objectives and performance across departments, manufacturing and distribution.

## Our progress

### Our sustainability partner: Julie's Bicycle

We started working with Julie's Bicycle, a London-based charity that supports the creative community to act on climate change and environmental sustainability. Through the year of focused collaboration, we worked together to establish some key facts about the business, including gathering data on our carbon footprint and completing our 2019 ESOS Assessment. Together, we established an environmental policy that resonates with who we are and where our actions can have the most beneficial results.

At the end of our first year, we scored 3/5 in our Creative Green Assessment from Julie's Bicycle, which we will repeat annually and track improvements.

### Our commitment to product longevity

As a manufacturer, we have a responsibility to make good products that stand the test of time, and not become redundant after a few years. Our products have always been robust and long-lasting, but to further increase our commitment to making reliable and durable products, we extended our standard two-year warranty to three years across the entire Focusrite and Novation product portfolio. Combined with ADAM Audio and Martin Audio offering up to five years warranty this will encourage greater reliability and less wastage, which is not only a plus for the planet, but a great benefit to our customers.

### Supplier sustainability expectations

While we have full control over in-house environmental factors like office-space energy consumption and company vehicles, ensuring the same sustainability commitment from our suppliers and manufacturing partners requires dedicated monitoring. In our quarterly supplier reviews, we constantly track the sustainability of the materials used in the production of our products – whether it is our gift box or semiconductor suppliers. Wherever possible, we minimise the use of virgin materials, instead opting for recycled alternatives, and select substances that can be recycled in the future after the products' end of life.

### Design for sustainability guidelines

We established a set of operating procedures and best practices for creating sustainable products and are incorporating them into our design process. These are being applied to all new products, maximising sustainability long before production and is an area of focus we will be building on in FY21 through collaboration with Martin Audio and ADAM Audio.

- Less is more.
- Safe and sustainable materials.
- Make things well.
- Design for reuse.
- Design for reliability.
- Close the loop.

# **Sustainability** continued

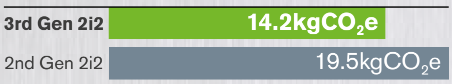
## Case study:
## Carbon footprint of our most popular product

Tracking products' carbon footprint has been a goal of ours for some time, and with our commitment to sustainability in FY20 came the first full-scale opportunity to measure the environmental impact of our biggest-selling product: the Scarlett 2i2 3rd Generation audio interface.

From this research, we now know the carbon footprint across the three-year warranty has improved by 27% compared to the previous generation, from 19.5kg$CO_2$e[1] to 14.2kg$CO_2$e. As the design was significantly improved this was achieved because of three main factors:

- More efficient material usage and greater automation in manufacturing resulting in the carbon footprint to build each unit reducing by 38% from 10.03kg$CO_2$e to 6.29kg$CO_2$e.
- We were able to reduce the product weight by 14% from 761g to 657g, which has a direct impact on shipping efficiency.
- The product is 20% more energy efficient, so across three years usage the carbon footprint is expected to improve from 4.70kg$CO_2$e to 3.76kg$CO_2$e.

**27%**
**Reduction in Scarlett 2i2 carbon footprint**




1 Carbon dioxide equivalent in kilogramme.

| | UK and Offshore | Global (excluding UK and Offshore) | Total (Focusrite plc) |
|---|---|---|---|
| **Emissions from combustion of gas** (Scope 1) – t$CO_2$e | 114.82 | 0.00 | 114.82 |
| **Emissions from combustion of fuel for transport purposes** (Scope 1) – t$CO_2$e | 5.25 | 11.82 | 17.07 |
| **Fugitive emissions from refrigerant leakages** (Scope 1) – t$CO_2$e | 77.88 | 0.00 | 77.88 |
| **Total Scope 1 emissions** Emissions from activities for which the company own or control including combustion of fuel and operation of facilities – t$CO_2$e | 197.95 | 11.82 | 209.77 |
| **Total Scope 2 emissions** Emissions from purchase of electricity, heat, steam and cooling purchased for own use (location based) – t$CO_2$e | 103.37 | 45.94 | 149.30 |
| **Total gross Scope 1 and Scope 2 emissions** t$CO_2$e | **301.32** | **57.75** | **359.07** |
| **Other indirect emissions (Scope 3)** Emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel – t$CO_2$e | 17.13 | 0.00 | 17.13 |
| **Total gross Scope 1, 2 and 3 emissions** t$CO_2$e | **318.45** | **57.75** | **376.20** |
| **Intensity metric (gross emissions)** t$CO_2$e per £m turnover | | 2.89 (Focusrite plc) | |
| **Total energy consumption** kWh | **1,143,448.30** | **203,094.87** | **1,346,543.17** |

### Mapping our carbon footprint

Under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon) Regulations 2018, we are required to report the greenhouse gases ('GHG') emissions from natural gas, electricity, transport fuel and fugitive emissions. Additionally, the use of an intensity ratio is required under the Streamlined Energy and Carbon Reporting ('SECR'). To meet this, we have worked closely with McGrady Clarke Group Limited to provide third-party verification and calculations using the latest emissions factors.

The SECR reporting period covers Focusrite plc's business units, Focusrite, ADAM Audio and Martin Audio, from the 1 September 2019 to 31 August 2020 and our calculations are for the following Scopes:

- Building-related energy – natural gas (Scope 1), refrigerant leakage (Scope 1) and purchased electricity usage (Scope 2).
- Transportation – Company-owned vehicles (Scope 1) and grey fleet employee vehicles (Scope 3).

### Calculation methodology

Our footprint has been calculated in accordance with the 'GHG Protocol Corporate Accounting and Reporting Standard' and in line with Defra's 'Environmental reporting guidelines: including Streamlined Energy and Carbon Reporting Requirements'. The latest 2020 emission conversion factors developed by Defra, the IEA, the US EPA and HK Electric (2019) conversion factors have been used. We have used the operational control approach.

Reported emissions from Martin Audio were calculated based upon the length of ownership by Focusrite plc following acquisition in December 2020 and associated emissions are for the period from 1 January 2020 to 31 August 2020.

### Energy efficiency measures

We are now looking forwards at opportunities to reduce emissions and improve energy consumption across all locations while simultaneously improving data capture procedures. As FY20 has been our first year of SECR we will report on progress annually against this baseline along with key initiatives.

"Our choice of contract manufacturers is critical to our business, not only for ensuring our quality of manufacture but also in terms of social responsibility and sustainability."

# Our Partners

**Whilst price will always play an important part in our commercial decision-making around suppliers, partners and contractors, it is by no means the only significant consideration. We pride ourselves not only on what we do but the way we do it. This must also be true for those third parties with which we partner.**

Our choice of contract manufacturers is critical to our business, not only for ensuring our quality of manufacture but also in terms of social responsibility and sustainability. The initiatives of our suppliers include reducing energy and water consumption and the reduction of waste through recycling, solar power and rainwater collection, among others. We continue to work with them to improve in all these areas. All our contract manufacturers operate with a minimum accreditation of ISO 9001 and ISO 14001. Our largest manufacturer also holds SA 8000 and OHSAS 18001 accreditation with a strong, active corporate social responsibility ('CSR') programme in place to improve worker engagement, health and safety. They are all responsible employers, complying with local employment law and providing good working and living conditions for their staff.

We're committed to ensuring that there is no modern slavery or human trafficking in our supply chain or any part of our business. Our Slavery and Human Trafficking Statement, as published on our Group website, reflects our commitment to acting ethically and with integrity in all our business relationships, and to implementing and enforcing effective systems and controls to ensure slavery and human trafficking is not taking place anywhere within our supply chain.

We recognise the importance of education, and most notably the crisis that music education finds itself in globally, due to poor funding and a de-focus away from the arts. We believe that technology has a substantial role to play in addressing this. We're working with educators to understand better how technology can help them ensure that anyone who wants music education can get it.

We're also proud of the relationships we've fostered with a number of music and business institutions around the world. Working with education establishments is not a new concept for us. Since 1999, we've worked closely with a number of renowned universities. Each year we employ several third-year undergraduate interns, providing them with a year of fulfilling and valuable work experience on full pay. Many go on to play pivotal roles in our organisation once they've graduated. We regularly run guest lectures and also support some select local initiatives, providing prizes for student competitions closer to home.

## **Sustainability** continued

# Custom
# at the heart of our business

## Our Passion – Our Customers

**We have three types of customer: distributor, reseller and end user. Ultimately, we create solutions for end users and that is where we are focused.**

Relevance and authenticity are the hallmarks of our end user communication strategy, with industry-leading videos as the primary medium for content. We have a productive line of communication with end users and our swift response rates has helped to grow our social media channels further. With paid advertising on social media kept relatively low, investments are made instead in the generation of relevant, useful, inspirational content that the community then shares organically.

Customer support is at the heart of our Group, and widely recognised as industry-leading, both informally across forums, and formally recognised in the form of a 'Best Support' award from a leading industry media title. With over 30 of the Group's team dedicated to end user customer support, we make sure our users are helped to overcome any barriers to getting the most out of our solutions. The customer support team meets weekly to discuss lessons learned, in a bid for constant improvement. They also relay this information directly to research and development, either to effect improved usability of a product or to influence future product innovation and design. They are our most direct and human connection to our end users and this feedback loop ensures we constantly push ourselves to remove barriers to creativity.

# ers:

"Relevance and authenticity are the hallmarks of our end user communication strategy, with industry-leading videos as the primary medium for content."

We are always seeking to create the best experiences and solutions for anyone wanting to make music. We speak to our customers daily about how they make music and the challenges they have, with the goal of designing better performing and more inclusive music making solutions.

One of the key areas that Focusrite is keen to continue to improve upon is accessibility, in both software and hardware music devices. In 2017, the business created an 'Accessibility Steering Group', bringing together representatives from across the business to highlight key areas.

In doing so, the importance and profile of accessibility has been raised to a point where it is at the heart of our product design and development. Various activities relating to accessibility are performed in early phases of a product's design, from checking for contrast and colour blindness issues in the design of a user interface, to using tools from Cambridge University that simulate visual impairments and physical impairments such as arthritis.

Not only do we ensure new products are designed with accessibility in mind, but we constantly look for improvements to those currently in the market; a firmware update to Scarlett 3rd Generation which gives greater accessibility to the Gain Halos for colour blind users is the most recent example of this.

We're very proud of our increased focus on ensuring that our products can be used by an ever wider range of end users and we are confident that this will help us to enrich people's lives through music for years to come.

**Tim Carroll**
**Chief Executive Officer**

**Jeremy Wilson**
**Chief Financial Officer**
17 November 2020

Focusrite Accessibility

# Section 172 Statement

**This section describes how the Directors have had regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006 in exercising their duty to promote the success of the company for the benefit of its members as a whole.**

**Key stakeholders**

## People
The hard work and ability of our people has built the success of the Group. Our people rely on the Group to provide stable employment and the opportunity to realise their potential in an appealing working environment. We also consider the interests of former employees who are members of a Group pension scheme and/or shareholders.

## Communities and the environment
Increasingly the wider public expect us to act as a responsible company and neighbour, and to minimise any adverse impact we might have on local communities and the environment.

## Investors
Over time we have relied upon our shareholders and debt providers to further our business objectives. They rely on us to protect and manage their investments in a responsible and sustainable way that generates value for them.

## Suppliers
Our suppliers are critical to the making and distribution of our products and provide essential services we need to operate our business. Our suppliers rely on us to generate revenue and employment for them.

## Customers
Our customers are our business partners who provide the opportunity to bring our brands to the market. They rely on the quality of our products in order to sell them at volume which generates revenue and employment for them.

## End users
End users are the reason we exist. In a world where choice is near limitless and wants immediate it is essential to our future that we can consistently and continuously design and offer attractive, high-quality products to new and existing customers at an accessible price.

The Board seeks to understand the respective interests of its stakeholders so that these may be properly considered in all decisions. This is done through the receipt of reports and updates from the business leaders who engage with the various stakeholders and coverage in Board packs with regard to proposed courses of action.

**Having regard to the likely consequences of any decision in the long term**

As customer demand for high-quality products increases and competitive products rival those of the Group, the operational cycle is becoming shorter. Despite this, the Board understands that its strategic decisions can have long-term implications for the business and its stakeholders, and these implications are carefully assessed.

The most prevalent example of this is in the Board's decisions with regard to capital allocation. During the approval process for the Group's budget, the Board balanced:

- the need for capital expenditure on new and existing routes to market, warehousing and systems to support operational performance; with
- the need to remain resilient to risks, attract and retain long-term investors by maintaining a progressive dividend policy and to return surplus capital to shareholders.

### Having regard to the interests of its people

The Board takes active steps to ensure that the suggestions, views and interests of the workforce are captured and considered in decision-making. The Directors perform a high degree of personal oversight in the Group's employee engagement which gives them an insight into the mood, culture and views of the workforce, which is then reported back to the Board.

The Group has a number of effective workforce engagement mechanisms in place:

- Employees are kept informed of performance and strategy through the regular all-hands presentations.
- The Executive Directors attend key business meetings throughout the year.
- Employee engagement surveys are undertaken covering the vast majority of the workforce, and the results are reported to the Board.
- A new performance and development tool has been rolled out which facilitates meaningful conversations between managers and teams, and provides a forum for positive and constructive feedback by individuals, peers and managers.
- The various HR/People Directors attend certain meetings of the Board and Group boards to brief on employee-related matters, including workforce demographics, engagement activities, the results of employee opinion surveys, staff retention rates, diversity, disciplinary and grievance procedures, learning and development activity, pay and reward including gender pay gap and HR initiatives.

The Board considers that, taken together, these arrangements deliver an effective means of ensuring the Board stays alert to the views of the workforce.

### Diversity

Diversity and inclusion have come to the forefront of the Group's agenda in terms of helping the business to attract, retain and develop the best talent from a diverse range of backgrounds. During the year a Diversity and Inclusion Committee has been established that seeks to champion the attraction and development of talent in the music technology industry.

### Having regard to the need to foster the company's business relationships with suppliers, customers and end users

Throughout the year the Board was briefed on major matters with regard to key suppliers, notably with the Group's providers of components and freight forwarding services. The Board seeks to balance the benefits of maintaining strong partnering relationships with key suppliers alongside the need to obtain value for money for our investors and the desired quality and service levels for our products.

The interests of customers are considered in key decisions, e.g. relating to: product lines, third-party brands, selection and monitoring of suppliers to ensure quality and safety standards are met and freight and logistics arrangements to maximise efficiencies from order to delivery. The Group has a large end user base and is not dependent on a small number of customers. COVID-19 may impact a customer's ability to pay, though this is not expected to impact the 2020 year end balances. The Group will consider the impact of COVID-19 as part of its credit risk management procedures in the coming year.

The sentiment of end users can be seen in the Group's performance figures, which the Board reviews regularly. The Executive Directors provide updates to the Board on their perceptions of consumer sentiment and the market view.

### Having regard to the impact of the company's operations on the community and the environment

The Group has an established 'Green Team' and the Board supports the team's goals and initiatives with regard to reducing adverse impacts on the environment and supporting the communities that it touches. See the Sustainability section on page 34 for more details. The Board intends to give further consideration to the Company's approach to climate change and further measures the Group can take to contribute to the reduction of our impact on the environment.

### Having regard to the desirability of the company maintaining a reputation for high standards of business conduct

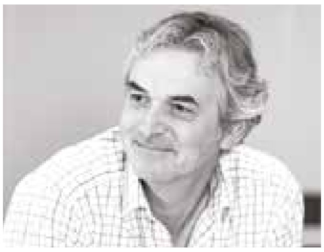
- Corporate governance – the Board recognises the importance of operating a robust corporate governance framework. See the Corporate Governance Report on page 46.
- Ethical business – the Audit Committee exercises oversight over the Group's business practices. During the year, the Board approved the Group's Slavery and Human Trafficking Statement.

### Having regard to the need to act fairly as between members

The Group has one class of share in issue therefore all shareholders benefit from the same rights, as set out in the company's Articles of Association and the Companies Act 2006. The Board recognises its legal and regulatory duties, including under the EU Market Abuse Regulation, and does not take any decisions or actions, such as selectively disclosing confidential or inside information, that would provide any shareholder or group of shareholders with any unfair advantage or position compared to the shareholders as a whole.

# Board of Directors

# Leading by example

| |  |  |  |
|---|---|---|---|
| | **Philip Dudderidge**<br>**Executive Chairman and Founder** | **Timothy Carroll**<br>**Chief Executive Officer** | **Jeremy Wilson**<br>**Chief Financial Officer** |
| **Appointed to the Board** | March 1989<br>(Appointed Chair – January 2012) | January 2017 | September 2014 |
| **Experience** | Phil has a distinguished career in the professional audio industry. He co-founded Soundcraft in 1973 which became a leading brand of sound mixing consoles and was sold to Harman International in 1988. Phil acquired the assets of Focusrite Limited in 1989. Phil served as Chief Executive Officer of Focusrite from 1989 until he became Chairman in 2012. | Tim was appointed Chief Executive Officer of Focusrite in January 2017. Previously, he was Vice President of Avid Technology responsible for product development, commercialisation and delivery on all of Avid's audio portfolio including the industry standard Pro Tools audio workstation, the S6 Control surface, the Venue and S6L Live Sound solutions, and Sibelius notation and music learning applications. He is a professional musician by background, having recorded and toured for nearly 20 years as a keyboard player before joining Avid. | Jeremy was appointed Chief Financial Officer of Focusrite in September 2014. Prior to Focusrite, Jeremy was Chief Financial Officer of Atex Group Limited, a leading worldwide developer of content management and advertising software to the media industry. Before that, Jeremy was Chief Financial Officer of Regenersis plc, the AIM-quoted support services business. Prior to his Chief Financial Officer roles, Jeremy held several senior finance roles at DHL Express (UK) Limited and Electrocomponents plc. He qualified as a Chartered Accountant at KPMG in 1992. |

A Audit Committee
R Remuneration Committee
N Nominations Committee
● Committee Chairperson

| | | | |
|---|---|---|---|
| **Committee membership** | N | | |

**David Bezem**
**Independent**
**Non-executive Director**

December 2014

David joined the Board of Focusrite in December 2014. He brings with him more than 25 years' experience as an investment banker advising UK public companies across a range of sectors. David qualified as a Chartered Accountant with Arthur Andersen & Co. in 1984. Until October 2018 he was also a Non-executive Director and Chairman of the Remuneration Committee of Harvey Nash Group plc.

A R N

**Paul Dean**
**Independent**
**Non-executive Director**

December 2014

Paul joined the Board of Focusrite in December 2014. Paul has over 30 years of experience across numerous sectors, including technology. Previously, he was Group Finance Director at Ultra Electronics Holdings plc between 2009 and 2013 and Group Finance Director of Foseco plc between 2001 and 2008, including the period of its flotation in 2005. He also held various senior finance roles at Burmah Castrol plc from 1990 to 2000. Currently, Paul is also a Non-executive Director and Chairman of the Audit Committee at RM plc and Wincanton plc. Paul is a Chartered Management Accountant.

A R N

**Naomi Climer CBE**
**Independent**
**Non-executive Director**

May 2018

Naomi joined the Board of Focusrite in May 2018 bringing with her experience from a career in technology, media, engineering and science. Until March 2015, she was the President of Sony's Media Cloud Services based in Los Angeles. Prior to this, she was Vice President of Sony's B2B organisation across Europe covering diverse markets including media, broadcast, cinema, sports, security and healthcare. She currently holds a number of prestigious positions including: Trustee at the Royal Academy of Engineering; Non-executive Director of Sony UK Technology Centre and Oxford Metrics plc; Chair of Council at the International Broadcasting Convention; Co-Chair of the Institute for the Future of Work; and she is also a member of the UK government's Science and Technology Awards Committee.

A R N

**Francine Godrich**
**Company Secretary**

June 2018

Francine joined Focusrite in 2018 and is the Group General Counsel and Company Secretary for Focusrite plc. Francine is a solicitor and prior to joining Focusrite was General Counsel for a healthcare company.

# Group Executive Committee

# Experience counts

and with almost 200 years of music industry experience between them, the Focusrite Group's Executive Committee have a lot to call on.

**Christian Hellinger**
**CEO of ADAM Audio**

**Tim Dingley**
**Chief Operations Officer**

**Jeremy Wilson**
**Chief Financial Officer**

**Phil Dudderidge**
**Executive Chairman and Founder**

It is this team that has driven the strong growth over the last decade. Coupled with our flat hierarchical approach, their leadership signals a high level of business maturity across the entirety of the Group.

**Tim Carroll**
**Chief Executive Officer**

**Damian Hawley**
**Chief Revenue Officer**

**Dominic Harter**
**CEO of Martin Audio**

# Corporate Governance Report

## Chairman's introduction

This is Focusrite plc's Corporate Governance Report for the year ended 31 August 2020, delivered on behalf of the Board.

As Chairman, I am responsible for ensuring that the Board operates effectively and upholds high standards of corporate governance. The Board understands the importance of ensuring that a strong governance framework which underpins the Group's ability to achieve its strategic goals is in place. Governance arrangements are reviewed on an ongoing basis to ensure they remain fit for purpose. As with the environment in which we operate, the corporate governance arena has evolved over the last year. This is our first Annual Report since the introduction of the new requirements with regard to stakeholder engagement.

## Stakeholder engagement

We recognise the importance of the role that good governance plays in the Group's success. We also recognise that we do not exist in isolation and stakeholder trust is increasingly important to our success. During the year, we considered our approach to engaging with the Company's stakeholder groups and in particular with our workforce. We understand the value of incorporating stakeholder views when considering our strategic planning and decision-making. Our approach to stakeholder engagement is set out on page 40.

## Compliance

The Group is committed to the highest standards of corporate governance and complies with the provisions of the Quoted Companies Alliance's Corporate Governance Code (the 'Code') or provides a well-reasoned explanation where we do not. Our compliance statement, required for AIM companies, can be found on our corporate website. The Code is published by the Quoted Companies Alliance and is available at https://www.theqca.com.

## Commitment to continuing governance

Understandably, environmental, social and governance ('ESG') considerations are increasingly becoming a key area of focus for stakeholders. The Group is mindful of the impact its operations have on the environment and the communities it touches. In this year's Annual Report, we have increased our ESG disclosures which covers this area in more detail. We remain committed to applying robust governance to safeguard the long-term interests of the company and its stakeholders.

## Culture

The Group's culture is particularly important as the Group grows. Openness and transparency, with a strong focus on high expectations and standards, honesty and integrity feature in our approach. As the Group ultimately operates within the consumer sector, our focus remains on the safety and security of the company's products and end users' data.

## The Board

### Board structure

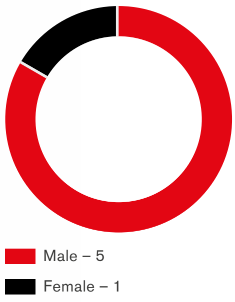
Biographies of individual Directors are provided on page 42 and their Board and Committee responsibilities are outlined below and in the various Committees' reports.

Whilst there were no changes to the Board during the year, Jeremy Wilson resigned, indicating his intention to leave the Group at the end of 2020. The Board commenced a search process for a new Chief Financial Officer using an independent search firm, Independent Search Partnership ('ISP'). A number of candidates were shortlisted and Sally McKone accepted the offered position on 31 August 2020.

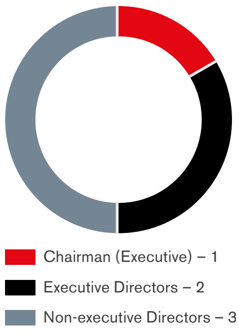
Sally trained as a Chartered Accountant with Grant Thornton before moving into industry at Electrocomponents plc and then IMI plc. She has specialised in B2B distribution and manufacturing, covering both financial reporting and operational roles across Europe, APAC and the USA.

The Board is taking steps to balance its representation, not only on the Board but across the Group. The Group believes that a diversity mix allows for rounded discussions from various perspectives which will strengthen decision-making.

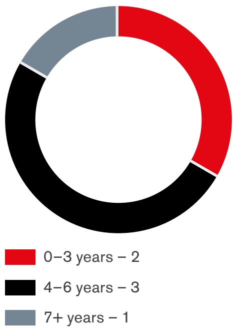
**Board gender**




**Board Executive/Non-executive membership**




**Tenure (Board)**



**Board leadership**

The Board's principal role is to provide effective leadership of the Group so that it generates and preserves value over the long term. It is responsible for:

- The long-term success of the Group, setting and executing the business strategy and overseeing delivery in a way that enables sustainable long-term growth.
- Providing effective leadership whilst delegating more detailed matters to its Committees and officers including the Chief Executive Officer.
- Setting and monitoring the Group's risk appetite and the system of risk management and internal control and for monitoring implementation of its policies.
- Approving annual Group budgets and subsequent regular review of performance against budget including explanation of significant variances. Forecasts for each half year are revised and reviewed monthly.

The Board has a formal schedule of matters reserved for it, including, but not limited to:

- management structures;
- strategy and policy;
- finance; and
- legal, administrative, pension and other benefits.

## Overview of governance structures

The structure of the Board is designed to ensure that it focuses on strategy together with the monitoring of performance, control and risk. The Board considers that the company's governance structure, as outlined below, facilitates the operation of an open and straightforward culture, and is not burdened by complex hierarchies and over-delegation of responsibilities.

**Board**

Responsible for providing effective leadership by setting business strategy and overseeing delivery in a way that delivers long-term growth for the benefit of the Group's shareholders

**Board Committees**

The terms of reference for each Committee are documented and agreed by the Board. They are reviewed and updated and are available on the corporate website

**Audit Committee (p52)**

- Review and monitor the integrity of the Group's financial statements
- Review and monitor the adequacy and effectiveness of the risk management framework and the systems of internal controls (including whistleblowing procedures)
- Review and monitor the effectiveness and independence of the external and internal auditor

**Nomination Committee**

- Keep under review the composition, size, structure and diversity of the Board and its Committees
- Evaluate the balance of skills, experience and diversity of the Board
- Provide succession planning for the Board and senior management
- Lead the process for new Board appointments

**Remuneration Committee (p55)**

- Responsibility for setting the remuneration policy for all Executive Directors, including pension rights and any compensation payments
- Monitor the level and structure of remuneration for senior management
- Review the ongoing appropriateness and relevance of the remuneration policy when setting the Remuneration Committee Report

**Chief Executive Officer**

Responsible for the day-to-day running of the Group's business and performance, and for the development and implementation of business strategy

**Executive/operational management**

The Chief Executive Officer has delegated authority for the day-to-day management of the business to operational management comprising other Executive Directors and senior management who have responsibility for their respective areas. This includes important weekly trading and capital expenditure meetings which consider the performance and development of the various brands through their different distribution channels. This and other meetings also focus on risk management of business areas in respect of the Group's business, including product, sales, customer experience, property, warehousing, systems and people

# Corporate Governance Report continued

## Board committees

The Board has appointed Committees to carry out certain aspects of its duties. Each is chaired by a Non-executive Director and has written terms of reference which are available on the company's corporate website. The Chair of each Committee reports regularly to the Board on how that Committee has discharged its responsibilities.

## Board meetings

The table below shows the attendance at Board and Committee meetings during the year to 31 August 2020. All of the independent Non-executive Directors are members of the Nomination, Audit and Remuneration Committees. Not only does this provide an opportunity for the Non-executive Directors to deepen their understanding of the Group's business, control and risk environment and provide them with valuable information and insight; it also contributes to the value they add individually and collectively to the effective and efficient running of the Board and its Committees.

The Board is satisfied that each of the Directors is able to allocate sufficient time to the Company to discharge their responsibilities effectively. In the event a Director is unable to attend a meeting, their comments on the business of the meeting are discussed with the Chairman ahead of the meeting and then relayed to the Board. Ad hoc meetings of the Board are held at short notice as appropriate. Under their letters of appointment the Non-executive Directors are expected to spend a minimum of 20 days per annum attending to Board business.

A topical Board calendar is prepared on an annual basis with members of the Group Executive Committee and the extended management team regularly invited to attend to present an update on their areas of the business. During the year, there were more Board meetings than in previous years due to complexities around the acquisition of Martin Audio and the upheaval of COVID-19.

| Director | Role | Board | Audit | Nomination | Remuneration |
|---|---|---|---|---|---|
| Number of meetings attended in the year: | | | | | |
| Phil Dudderidge | Chairman | 21/21 | – | 3/3 | – |
| Tim Carroll | Chief Executive Officer | 21/21 | – | – | – |
| Jeremy Wilson | Chief Financial Officer | 21/21 | – | – | – |
| David Bezem | Non-executive Director | 21/21 | 5/5 | 3/3 | 6/6 |
| Naomi Climer | Non-executive Director | 21/21 | 5/5 | 3/3 | 6/6 |
| Paul Dean | Non-executive Director | 21/21 | 5/5 | 3/3 | 6/6 |

The Executive Directors are invited to attend Board Committees as necessary.

Contracts and letters of appointment of Directors are made available at the Annual General Meeting (AGM), and are available for inspection at the Company's registered office during normal business hours or on request.

Comprehensive Board packs are circulated in advance of each meeting and the following standing items are discussed:

- implementation of actions agreed at previous meetings;
- report from the Chief Executive Officer on operational and strategic matters;
- business development;
- financial results, management accounts and commentary;
- regular presentations from members of the Group Executive Committee and the extended management team; and
- legal, governance and regulatory matters.

Key topics considered by the Board in 2020 were:

- COVID-19 impact on the business;
- acquisition opportunities;
- banking facilities;
- review, debate and challenge of the corporate strategy and plan;
- Group budget;
- financial results announcements, presentations, Report and Accounts and market updates (annual and half year);
- Group viability statement;
- information and cyber security;
- succession planning;
- risk management;
- sales and marketing;
- people strategy; and
- operational efficiency and production.

There is ongoing contact among the Chairman, Executive Directors and Non-executive Directors between Board meetings. The amount of time that Non-executive Directors are expected to commit to discharge their duties is agreed on an individual basis at the time of appointment and reviewed thereafter as necessary. The time commitment agreed takes into account whether the appointee is the Chair or a member of a Board Committee(s) and whether the Director has any external executive responsibilities. On average this equates to approximately two days per month for a Non-executive Director.

The Directors have access to the advice and services of the company Secretary who is responsible for ensuring that the Board and its Committees' procedures and applicable rules and regulations are met. The Directors all have access to the Group's key advisers. If required in the performance of their duties, Directors may take independent professional advice at the company's expense. Appropriate insurance cover is in place in respect of legal action against the Directors. The company has adopted and maintained a share dealing code for Directors and employees in accordance with the Market Abuse Regulations.

## Board effectiveness

The Board has extensive operational experience and many years of detailed knowledge of the electronics and professional audio industry, both in the UK and overseas. While the Board also benefits from significant financial, transactional and public company expertise, Directors are encouraged to keep abreast of developments and attend training courses to assist them with their duties.

During the year an internal evaluation of the Board, its Committees' and Directors' effectiveness was undertaken, facilitated by the Company Secretary. The evaluation process took place in the final quarter of the year. Following a briefing provided by the Company Secretary, each of the Directors was issued with a questionnaire prepared by the Company Secretary and Chair of the Nominations Committee designed to elicit the views and opinions of individual Directors on all aspects of the effectiveness of the Board and its Committees. These included composition, experience, dynamics, leadership and the extent to which the Board fulfils its role and responsibilities with particular regard to strategy, oversight of risk and succession planning, as well as covering progress with the areas for development identified in the previous year's external evaluation. The review highlighted that the Board is operating effectively, offering good challenge and adding value. The Company Secretary is drawing together the responses and will review findings with the Board during the course of 2020/21.

## Conflicts of interest

Directors have a legal duty to avoid conflicts of interest. Prior to appointment, conflicts of interest are disclosed and assessed to ensure that there are no matters which would prevent that person from taking on the appointment. If any potential conflict arises, in accordance with the company's Articles of Association, the Board has a formal system in place for Directors to declare situational conflicts to be considered for authorisation by those Directors who have no interest in the matter being considered. In deciding whether to authorise a situational conflict, the non-conflicted Directors consider the situation in conjunction with their general duties under the Companies Act 2006. They may impose limits or conditions when giving an authorisation or subsequently if considered appropriate. Any situational conflicts considered by the Board, and any authorisations given, are recorded in the Board.

## Division of responsibilities

### Independence of Non-executive Directors

All Non-executive Directors were considered by the Board to be independent at the time of their appointment, independent as to character and judgement and to be free of relationships and other circumstances that might impact their independence. Appointments of Non-executive Directors are for specific terms (initially for three years) and are subject to statutory provisions relating to the removal of a Director.

The Board delegates certain responsibilities to the three principal Board Committees: the Audit Committee, the Remuneration Committee and the Nomination Committee. The terms of reference for each Committee are available on our corporate website and are reviewed annually. The Chair of each Committee reports to the Board in relation to the Committee's activities and recommendations. Members of the Board who are not members of individual Committees may be invited to attend meetings of those Committees at the discretion of the respective Committee's Chair but are not permitted to vote in respect of Committee business.

The Audit Committee is responsible for overseeing the Group's external financial reporting and associated announcements, considering risk management, internal controls procedures and the work of the Group's auditor. The Committee met five times during the year and comprises all the Non-executive Directors. Full details of the work of the Committee are set out in the Audit Committee report on page 52.

The Remuneration Committee is responsible for establishing a formal and transparent procedure for setting executive remuneration policy and for setting the remuneration of individual Directors. Through the Remuneration Committee, the Chairman and Non-executive Directors meet without the Executive Directors present. The Committee met six times during the year and comprises all the Non-executive Directors. Full details of the work of the Committee are set out in the Directors' Remuneration Report on page 55.

The Nomination Committee is responsible for leading the Board appointments process and for considering the size, structure and composition of the Board. The Committee met three times in the year. The Board remains satisfied that the size of the Board and its Committees and the balance of Executive and Non-executive members is such that no individual or small group of individuals can unduly influence its decisions.

As at the date of this report, the Board comprised the Chairman, three independent Non-executive Directors and two Executive Directors who collectively possess an appropriate balance of expertise appropriate to lead the company's business. The Non-executive Directors have a broad range of UK and international business knowledge and experience, as well as industry, finance, corporate transactions and risk management experience. Directors are subject to election or re-election by shareholders at each AGM.

The roles of the Chairman and the Chief Executive Officer are separate which provides a clear division of responsibilities between the running of the Board and the Executive responsibility of running the business.

# Corporate Governance Report continued

### Chairman
The Chairman is responsible for the leadership and effectiveness of the Board. The Chairman's responsibilities include:
- chairing the Board and shareholder meetings (including the AGM);
- providing leadership of the Board and ensuring that the Board maintains its effectiveness;
- providing challenge to the Executive Directors and working closely with the Chief Executive Officer on key strategic decisions; and
- setting the Board agenda and ensuring all Directors have the opportunity to maximise their contribution to the Board by encouraging open and honest debate and constructive challenge of the Executive Directors.

### Chief Executive Officer
The Chief Executive Officer is responsible for the implementation of the approved strategic and financial objectives of the Group. To assist in this, the Chief Executive Officer leads the Group Executive Committee which consists of the Chief Financial Officer, the Chief Revenue Officer, the Chief Operating Officer and the CEOs of ADAM Audio and Martin Audio.

The Group Executive Committee meets in person once a month with a focus on operational performance. The Chief Executive Officer's responsibilities include:
- the day-to-day running of the business being accountable to the Board for the Group's financial and operational performance;
- developing and reviewing the Group strategy;
- with the Chief Financial Officer, maintaining a dialogue with major shareholders;
- with the Chief Financial Officer, reviewing the financial performance;
- chairing the Group Executive Committee to direct and coordinate the management of the Group's business generally; and
- monitoring the performance of senior managers.

### Non-executive Directors
The Non-executive Directors provide independent, constructive challenge and insight to the Executive team, forming an integral part of the Board's decision-making process together with the monitoring of management and business performance. The Non-executive Directors play a key role in developing and reviewing proposals on strategy, strengthening governance through participation and in chairmanship of the Board Committees and providing a wide range of experience and independence. This aids the Board in developing a broader understanding and in evaluating the implications, risks and consequences of decisions.

## Accountability
There are formal and transparent arrangements for considering how corporate reporting, risk management and internal control principles are applied. The company has a range of governance related policies and procedures in place, including an anti-bribery and corruption policy and online training programme, a whistleblowing policy, employee assistance programmes, staff welfare policies and procedures, and health, safety and environmental policies.

The Board is accountable to its shareholders and seeks to balance their interests with those of a broader range of stakeholders, which includes employees, suppliers, customers, regulators and the community. The Board has ultimate responsibility for the Group's internal control arrangements and for reviewing their effectiveness. Such arrangements guide and direct the activities of the Group to support delivery of its strategic, financial, operational and other objectives and safeguard shareholders' investment and the Group's assets. The Board governs through clearly defined committee structures, which support the work of, and are accountable to, the Board. Details of the role and activities of the principal Committees are set out in the Committee reports. The Group has implemented a system of internal controls to reduce, as it cannot eliminate, the likelihood and/or impact of poor judgement in decision-making, human error, deliberate circumvention of control processes by employees and others, management override of controls and the occurrence of unforeseeable circumstances. The Board sets policies, and seeks and obtains on an ongoing basis, both directly and through the Audit Committee, assurance regarding the existence and operation of appropriate internal controls to mitigate key strategic, financial, operational, compliance and reputational risks. The Board and Audit Committee consider any significant control matters raised in reports from management and the company's external auditor and they monitor the progress of remedial actions.

The key components of the Group's overall control frameworks, all of which were in place, or established, throughout the year ended 31 August 2020 are as follows:
- delegated limits of authority;
- a comprehensive weekly and monthly financial and operational performance reporting system is in place which covers, amongst other things, operating results, cash flow, balance sheet information, forecasts and comparisons against budgets; and
- regular updates to the Board from management on insurance, litigation, people and health and safety matters.

Segregation of duties, authorisation limits and other key internal controls are designed into both system-based and manual processes. These arrangements are reviewed periodically by management and external auditor to ensure they remain appropriate.

**Financial planning and monitoring**
The Group sets annual budgets, which together with three-year plans are subject to Board approval. The Board reviews business performance when it meets. Summary financial information, including actual performance versus budget and expected future performance, is provided to all Board members.

**Policies, procedures and authorisation limits**
The programme to define, create and embed Group-wide policies in key areas was enhanced throughout 2020. Policies and documented procedures in place include:

- delegated authority limits;
- Group anti-bribery and corruption policy;
- Group people policies;
- Group health and safety policies. All employees are required to acknowledge that they have read and understood this policy;
- Group standards of business conduct; and
- Group whistleblowing policy.

**Risk management**
The approach to risk management, risk appetite and the principal risks themselves are set out on page 26.

**Internal audit**
The Group has continued to implement the action plans arising from its most recent internal audit by an external firm, Saffery Champness LLP, who undertook a systems analysis in FY19 which was presented to the Board in that year.

**Remuneration**
Remuneration is addressed separately in the report of the Remuneration Committee and the Directors' Remuneration Report on page 55.

## Annual General Meeting
The annual general meeting of the Company ('AGM') will be held on Thursday 17 December 2020 at 12:00pm. Normally, I would take this opportunity to encourage shareholders to attend but, due to the outbreak of the coronavirus and subsequent guidance on gatherings, the meeting will be held as a closed meeting and shareholders will not be able to attend. Instead, I encourage you to vote by completing a proxy appointment form. We are offering shareholders the opportunity to ask any questions that they may have in respect of the Group's activities by way of email to the Company Secretary at info@focusriteplc.com. At the AGM, separate resolutions will be proposed for each substantially different issue. Proxy votes are disclosed by means of an announcement on the London Stock Exchange and via the Group's website. The Annual Report, including financial statements and related information, is made available in advance of the meeting on the Group's website or posted to shareholders if they have requested a paper copy.

# Audit Committee Report

**Paul Dean**
**Audit Committee Chairman**

| Committee members | Committee meetings held | Attendance |
|---|---|---|
| David Bezem | 5 | 5 |
| Naomi Climer CBE | 5 | 5 |
| Paul Dean | 5 | 5 |

## Dear shareholder,

On behalf of the Board, I am pleased to present the Audit Committee Report for the year ended 31 August 2020.

The Audit Committee is responsible for ensuring that the financial performance of the Group is properly reported and reviewed. Its role includes:

- monitoring the integrity of the financial statements (including annual and interim accounts and results announcements);
- reviewing internal control and risk management systems;
- reviewing any changes to accounting policies;
- reviewing and monitoring the extent of the non-audit services undertaken by the external auditor;
- advising on the appointment of the external auditor; and
- meeting with the external auditor outside the Committee schedule to ensure there is full opportunity for discussion.

## Members of the Audit Committee

The Committee consists of three independent Non-executive Directors: Paul Dean (as Chair), David Bezem and Naomi Climer. Phil Dudderidge, Tim Carroll and Jeremy Wilson may attend Committee meetings by invitation if required. The Committee met five times during the year.

The Board is satisfied that I, as Chair of the Committee, have recent and relevant financial experience. I am a chartered management accountant and I have served as CFO in a number of listed companies. I am currently Chair of the Audit Committees of RM plc and Wincanton plc, and previously Porvair plc and Polypipe Group plc. The Company Secretary, Francine Godrich acts as Secretary to the Committee. I report the Committee's deliberations at the next Board meeting and the minutes of each meeting are made available to all members of the Board.

## Duties

The main duties of the Audit Committee are set out in its terms of reference, which are available on the company's website (www.focusriteplc.com) and are available on request from the Company Secretary.

The main items of business considered by the Audit Committee during the year included:

- appointment of the external auditor;
- agreement and approval of the external audit plan and fees;
- monitoring the extent of the non-audit services undertaken by the external auditor;
- review of the effectiveness of internal controls and risk management systems;
- reviews of going concern, key judgements and significant accounting policies;
- reviews of the carrying values of intangible assets;
- review of the interim results;
- review of the auditor's findings from the annual audit including consideration of the external audit report and management representation letter;
- review of the annual financial statements;
- review of the Annual Report to ensure that it is fair, balanced and understandable;
- meeting with the external auditor without management present;
- assessment of the need for an internal audit function, the agreement of the internal audit programme and review of the internal audit reports;
- review of the IT position of the Group with particular regard to General Data Protection Regulation ('GDPR') and cyber security.

## Role of the external auditor

The Audit Committee monitors the relationship with the external auditor, KPMG LLP, to ensure that auditor independence and objectivity are maintained. As part of its review, the Committee monitors the provision of non-audit services by the external auditor. The breakdown of fees between audit and non-audit services is provided in note 9 to the Group's financial statements.

The Audit Committee also assesses the external auditor's independence and performance. KPMG LLP has complied with the partner rotation requirement set out in Ethical Standards for Auditors. The most recent rotation took place in 2018 with Michael Froom becoming the audit partner. Having reviewed the external auditor's independence and performance, the Audit Committee recommends that KPMG LLP be reappointed as the company's external auditor at the next AGM.

## Significant financial judgements and estimates

The significant judgement reviewed by the Committee in respect of the year under review was as follows:

### Revenue recognition

Stock is sold and revenue recognised when we have satisfied our performance obligations to distributors and dealers. The key judgement required is in the USA where the Group has a single distributor: American Music & Sound ('AMS'), which is a division of JAM Industries Limited, who are themselves owned by DCC plc.

The Group's subsidiary, Focusrite Novation Inc. ('FNI') works closely with AMS to market the Group's products and maintain relationships with AMS' customers.

However, in the judgement of the Directors, the Group does not have continuing managerial involvement over the goods sold to the degree usually associated with ownership, thereby signalling that AMS is a principal, rather than an agent of the Group. The reasons for this view include the facts that AMS has responsibility for providing goods to the customer, responsibility for the collection of payments from their customers and has no right of return to the Group. This judgement is consistent with prior periods.

### Capitalisation and recoverability of internally-generated intangible assets

The Committee accepted that, under IAS 38, it was necessary to capitalise product development costs if certain conditions were met. The Committee considered the capitalisation of cost, the commencement of amortisation and the period over which the costs were amortised and concluded that all were acceptable.

The significant estimates reviewed by the Committee in respect of the year under review were as follows:

#### *Acquisition accounting and recoverability of investment*

Similar to the process followed upon the acquisition of ADAM Audio in July 2019, following the acquisition of Martin Audio in December 2019, the purchase price was allocated across the fair value of the assets and liabilities acquired. This included the assessment of the fair value of intangibles acquired such as brand and product development in which there has been significant estimation and judgement applied by management. PwC LLP was engaged to assist with this valuation to determine which assets were identifiable and the relevant valuation methodology to be used.

#### *Impairment testing*

For all of the major intangible assets, there is an ongoing review process in which these assets are tested for impairment. This was particularly relevant in 2020 due to the varying effects of the COVID-19 pandemic. The recoverable value of an asset is assessed and, in the event that the recoverable value is less than the carrying value, an impairment is recognised.

For Novation and ADAM Audio, the recoverable amount exceeded the carrying value of the assets. Therefore, no impairment was indicated for the intangible assets on the balance sheet.

For Martin Audio, management estimated the recoverable amount of the assets to be lower than the carrying value and consequentially has impaired the goodwill. This is an important estimate made by management because the accounting standard requires that a forecast cash flow be prepared and discounted accordingly. The forecast growth was estimated by the management of Martin Audio and reviewed by Group. The discount rate used is a weighted average cost of capital ('WACC') calculation, tested against a range of market participants. The net result was that the assets of Martin Audio were valued at £10.2million less than the values shown on the balance sheet and so the goodwill has been impaired by that amount.

# Audit Committee Report continued

## Audit process

The external auditor prepares an audit plan for its review of the full-year financial statements, including any acquisitions that have taken place. The audit plan sets out the scope of the audit, areas to be targeted and audit timetable. This plan is reviewed and agreed in advance by the Audit Committee. Following its review, the external auditor presented its findings to the Audit Committee for discussion. No major areas of concern were highlighted by the external auditor during the year. However, areas of significant risk and other matters of audit relevance are regularly communicated. The Committee also formally reviews the effectiveness of the external audit process.

## Internal audit

At present, the Group does not have a dedicated internal audit function and the Committee believes that management is able to derive assurance as to the adequacy and effectiveness of internal controls and risk management procedures without one. However, during both FY18 and FY19, the Committee commissioned an internal audit review by Saffery Champness LLP. Having tested the systems and internal controls within the main transactional processes including sales, stock purchases, expenses, salary payments and bank reconciliations in FY18, during FY19, the review tested the application of the delegation of authority and the robustness of internal stock procedures. There were some recommendations made and the Group has implemented improvements.

Following two major acquisitions within six months, the Audit Committee accepted that management needed to spend 2020 aligning controls, policies and reporting processes before these could be subjected to an internal audit. There was also a need to complete external audits and changes of year end for both acquired businesses.

The Audit Committee and management have agreed that the internal audit function will resume in 2021. An audit programme has been agreed, focusing on areas of potential weakness in the acquired companies. Crowe Whitehill LLP have been appointed to carry out these internal audits.

## Risk management and internal controls

As described on page 50 of the Corporate Governance Report, the Group has established a framework of risk management and internal control systems, policies and procedures. The Audit Committee is responsible for reviewing the risk management and internal control framework and ensuring that it operates effectively. During the year, the Committee has reviewed the framework and the Committee is satisfied that the internal control systems in place are currently operating effectively.

## Whistleblowing, fraud and the UK Bribery Act

The Group has in place a whistleblowing policy which sets out the formal process by which an employee of the Group may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. Whistleblowing is a standing item on the Audit Committee's agenda, and regular updates are provided. During the year, no incidents were reported to the Committee.

The Group also has a procedure in place for detecting fraud, and systems and controls to prevent a breach of anti-bribery legislation. The Group Finance Manual sets out the procedures to which employees must adhere and is aimed at reducing the risk of fraud occurring. The Group is committed to a zero-tolerance position with regards to bribery. During the year, no incidents were reported to the Committee.

**Paul Dean**
**Audit Committee Chairman**
17 November 2020

# Directors' Remuneration Report



**David Bezem**
**Remuneration Committee Chairman**

| Committee members | Committee meetings held | Attendance |
|---|---|---|
| David Bezem | 3 | 3 |
| Naomi Climer CBE | 3 | 3 |
| Paul Dean | 3 | 3 |

## Introduction

I am pleased to introduce the Directors' Remuneration Report ('DRR') for the financial year ended 31 August 2020. The Group has had an exceptional year which certainly could not have been predicted when the challenges resulting from the COVID-19 pandemic became apparent. As has been described in more detail in the Chief Executive Officer's statement, interruptions to manufacturing and disruption to shipping for Focusrite and Novation products early in 2020 resulting from the lockdown in China, gave way to the favourable but equally challenging problem of meeting unanticipated levels of demand from diminishing stocks. Notwithstanding these challenges, the Group's profitability and free cash flow significantly exceeded the targets set by the Remuneration Committee. These outcomes are reflected in the annual bonus awards which have been made. More than ever perhaps, the Committee believes that the structure of the financial bonus targets, which focuses on profitability and cash generation, has continued to work well in aligning executives' and shareholders' interests.

As a company admitted to AIM, Focusrite plc is not required to prepare a DRR. However, the Board supports the principle of transparency and has therefore prepared this report in order to provide useful information to shareholders on its executive remuneration arrangements. Accordingly, although not required to comply with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the 'Regulations'), the Company has used these Regulations as guidance for presenting selected disclosures where it considers these to be relevant, helpful and appropriate. Accordingly, this report sets out information about the remuneration of the Directors of the Company for the year ended 31 August 2020 and, as appropriate, the following year.

# Directors' Remuneration Report continued

## Remuneration Committee

The members of the Remuneration Committee are David Bezem (Chairman), Paul Dean and Naomi Climer, who are all independent Non-executive Directors. Attendance at meetings of the Remuneration Committee by individual member is detailed in the Corporate Governance Report on page 48.

The Executive Chairman, Phil Dudderidge, attends the meetings and the CEO, Tim Carroll, and external advisers may be invited to attend meetings too. They do not take part in the decision-making. The Company Secretary, Francine Godrich, acts as secretary to the Committee.

Terms of reference have been approved for the Remuneration Committee and are reviewed annually. The Committee's primary responsibility is to determine, on behalf of the Board, the policy for the remuneration of the Executive Directors and to review the remuneration of such other members of the senior management team of the Group as is deemed appropriate. The remuneration of the Non-executive Directors is determined by the Board.

The Committee members have no personal financial interest, other than as shareholders, in the matters to be decided. They have no conflicts of interest arising from cross-directorships or from being involved in the day-to-day business of the Group. Neither the Committee members nor Phil Dudderidge participate in any bonus, share awards or pension arrangements.

## Remuneration policies

The Committee's principal aims in setting remuneration policies are to attract, retain and motivate high-calibre senior management, to focus them on the delivery of the Group's strategic and business objectives, to promote a strong and sustainable performance culture, and to align the interests of Executive Directors and other senior members of the management team with those of shareholders.

The remuneration package for each Executive Director is designed to include performance and non-performance-related elements. Non-performance elements include salary, taxable benefits and employer pension contributions. All other components of the remuneration package are performance-related and comprise a mixture of cash and share-based remuneration, and short and long-term incentives, as set out below.

The main elements of the remuneration packages for Executive Directors are:

- base salary;
- performance based annual bonus;
- long-term share incentives;
- pension contribution; and
- benefits.

## Base salary

Base salaries for the Executive Directors are reviewed annually and determined taking account of individual performance, scope of responsibility, relative pay levels within the Group and reference to external market data, as well as the scale and complexity of the Group. Consequently, and as fully explained in last year's DRR, the Remuneration Committee determined Tim Carroll's and Jeremy Wilson's base salaries for the 2020 financial year at the levels set out in the table on page 60. Phil Dudderidge's, Tim Carroll's and Jeremy Wilson's base salaries have all been increased by 2% for the 2021 financial year. As announced on 1 September 2020, Sally McKone will be joining the Company as CFO during the 2021 financial year. Her base salary will be £228,000 per annum. Further details of her remuneration will be set out in next year's DRR.

## Performance based annual bonus

Tim Carroll and Jeremy Wilson were awarded a discretionary performance based annual bonus for the financial year ended 31 August 2020. Phil Dudderidge does not receive an annual bonus. For both Tim Carroll and Jeremy Wilson, the bonus was based on three performance criteria: adjusted EBITDA, which represented 70% of the maximum bonus; adjusted free cash flow as a proportion of revenue, which represented 20% of the maximum bonus; and their individual contributions to developing strategic opportunities for the Group, which represented 10% of the maximum bonus and which was assessed qualitatively by the Remuneration Committee. The three performance criteria operated independently of one another.

The maximum cash bonus for both Tim Carroll and Jeremy Wilson was set at 100% of annual base salary for the 2020 financial year, as in preceding years. In addition, Tim Carroll and Jeremy Wilson had the opportunity to elect to receive a portion of any cash bonus in the form of shares up to a maximum value of 25% of their base salary. To the extent they elected to do so, the company undertook to make a matching award of shares (the 'matching shares'). This is subject to the condition that both the shares they elected to receive out of their cash bonus and the matching shares would be held for not less than two years, including if they were no longer employed by the company, subject only to satisfying any tax payments arising in respect of this remuneration. Again, this arrangement is the same as in preceding financial years and is designed to accelerate the rate at which the Executive Directors acquire shares in the company.

Following Jeremy Wilson's decision to leave the company, which was announced on 18 March 2020, at the Board's request he agreed to extend his notice period beyond the six months required by his service agreement until 28 February 2021 (extended from 31 December 2020 as announced then) or, if earlier, such time as Sally joins the company following her notice period at her current employer. This ensured that Jeremy was able to manage the financial reporting and audit for the 2020 financial year as well as allow more time for the search for a new CFO and a smooth handover. As a result, Jeremy was in post for the whole of the 2020 financial year and will remain so until 28 February 2021 if required. Consequently, the Remuneration Committee determined that he should remain eligible for a discretionary performance based bonus in the 2020 financial year (and for a pro rated bonus in respect of the proportion of the 2021 financial year he remains employed by the company).

As a result of the exceptional performance of the Group in the 2020 financial year, Tim Carroll and Jeremy Wilson were both awarded 100% of the maximum cash bonus to which they were entitled. The table below shows the upper and lower performance boundaries and the targets for the financial elements of the bonus. Following the acquisition of Martin Audio on 30 December 2019, these boundaries and targets were revised to take account of the forecasts for the performance of that business at the time of its acquisition by the Group. No other changes were made that would affect the level of performance required to achieve bonuses other than to adjust for the termination of the distribution of third-party brands following the acquisition of ADAM Audio, as announced in the half year results in May 2020, which represented a small part of the Group's business. With respect to the non-financial strategic element of the bonus, representing a maximum of 10% of the bonus opportunity, the Remuneration Committee determined that this was met in full. The amounts shown in the table are before taking account of any elections to receive a portion of their bonus in shares.

| | | Performance range below which no bonus is paid and above which no additional bonus is paid, and calculated on a straight-line basis between Threshold and Target as well as between Target and Maximum[1] | | | |
|---|---|---|---|---|---|
| | Performance criterion | Lower boundary | Target | Upper boundary | Actual |
| Tim Carroll | EBITDA[1] | £21.1m | £23.4m | £24.9m | £28.6m[2] |
| | Cash bonus entitlement | £0 | £119,700 | £199,500 | £199,500 |
| | % salary | 0% | 42% | 70% | 70% |
| | Free cash flow % of revenue[1] | 8.0% | 10.1% | 12.5% | 21.6%[3] |
| | Cash bonus entitlement | £14,250 | £34,200 | £57,000 | £57,000 |
| | % salary | 0% | 12% | 20% | 20% |
| | Strategic bonus cash settlement | £0 | £17,100 | £28,500 | £28,500 |
| | % salary | 0% | 6% | 10% | 10% |
| | **Total cash bonus** | **£14,250** | **£171,000** | **£285,000** | **£285,000[4]** |
| Jeremy Wilson | EBITDA[1] | £21.1m | £23.4m | £24.9m | £28.6m[2] |
| | Cash bonus entitlement | £0 | £90,300 | £150,500 | £150,500 |
| | % salary | 0% | 42% | 70% | 70% |
| | Free cash flow % of revenue[1] | 8.0% | 10.1% | 12.5% | 21.6%[3] |
| | Cash bonus entitlement | £10,750 | £25,800 | £43,000 | £43,000 |
| | % salary | 0% | 12% | 20% | 20% |
| | Strategic bonus cash settlement | £0 | £12,900 | £21,500 | £21,500 |
| | % salary | 0% | 6% | 10% | 10% |
| | **Total cash bonus** | **£10,750** | **£129,000** | **£215,000** | **£215,000** |

1 The financial targets were updated during the year, to reflect the inclusion of Martin Audio, following its acquisition in December 2019.

2 EBITDA is calculated excluding the non-underlying costs associated, inter alia, with the acquisition of Martin Audio (also see table on page 22).

3 The free cash flow as a % of revenue excludes the impact of the cash cost associated with the purchase of Martin Audio, the non-underlying costs paid up to the year end and the movements in the bank loan taken out to acquire Martin Audio.

4 Tim Carroll has elected to take an amount equivalent to 20% of his annual base salary in the form of shares in lieu of a cash bonus, matched by a similar additional award from the company, as set out in the Directors' emoluments table on page 60.

# Directors' Remuneration Report continued

## Long-term share incentives

The following table shows details of the awards made to Tim Carroll and Jeremy Wilson, as well as other senior management, under the Focusrite Performance Share Plan ('PSP') which had not vested or lapsed as at 31 August 2020.

### PSP awards to Executive Directors and other senior managers

| Grant date | 22 November 2017 | 21 November 2018 | 23 December 2019 |
|---|---|---|---|
| Terms: | | | |
| Performance period – three years to: | 31 August 2020 | 31 August 2021 | 31 August 2022 |
| Performance criterion: adjusted EPS CAGR[1] | 10% to 18% or greater | 10% to 18% or greater | 10% to 18% or greater |
| Proportion of award vesting | 20% to 100% | 20% to 100% | 20% to 100% |
| Exercise price | 0.1p | 0.1p | 0.1p |
| Options granted: | | | |
| Tim Carroll | 70,176 | 51,722 | 47,263 |
| Jeremy Wilson | 56,064 | 41,318[3] | 35,655[3] |
| Other senior managers | 23,194[4] | 58,746 | 66,708 |
| Vesting (%) | 100%[2] | N/A | N/A |
| Shares vesting: | | | |
| Tim Carroll | 70,176[2] | N/A | N/A |
| Jeremy Wilson | 56,064[2] | N/A | N/A |
| Other senior managers | 23,194[2] | N/A | N/A |

1. Compound annual growth rate.
2. Due to vest on 22 November 2020.
3. The options granted to Jeremy Wilson in 2018 and 2019 will lapse when he leaves the Company.
4. The options granted to other senior managers in 2017 were not subject to a performance condition. Options granted in 2018 and 2019 were subject to the same performance criteria as those granted to the Executive Directors.

### Awards to be made in the 2021 financial year

Following the announcement of results in respect of the 2020 financial year, it is intended that an award will be granted under the PSP to Tim Carroll in respect of the three-year performance period to the end of the 2023 financial year. As in previous years, these awards will be worth a maximum of 100% of base salary at the time of grant, have the same vesting criteria as those set for the awards made last year and be subject to malus and clawback provisions. PSP awards will also be made to other senior management. Details of all awards made in the 2021 financial year will be set out in the DRR in next year's Annual Report.

### Long-term incentives for other employees

The Group also operates both Enterprise Management Incentive ('EMI') schemes and unapproved option schemes for the benefit of other employees of the Group. These schemes, which were set up prior to the flotation on AIM, form part of the programme of incentives to promote the successful recruitment, retention and rewarding of all employees and reflect the importance the company places on wider share ownership. The last of such awards were granted in December 2015.

For this reason, a new scheme was introduced in the 2018 financial year for the benefit of employees other than the CEO, CFO and other senior management who receive PSP awards. This scheme, a Company Share Option Plan ('CSOP'), operates in a similar way to a conventional option scheme with grants of awards with an exercise price equivalent to the market price at the time the award is made and, as a CSOP, has certain tax advantages for employees. The awards vest in equal tranches after three, four and five years from the date of grant. The aggregate number of options awarded in the 2020 financial year under this new scheme was 168,400.

**Dilution**

All of the Group's equity-based awards are subject to an overall limit on the number of new ordinary shares that can be issued which will be dilutive. Other than awards to be satisfied by shares held by the Employee Benefit Trust {'EBT') at the time of the IPO, these must not, in aggregate, exceed 10% of the company's issued share capital over any rolling ten-year period post-IPO. The following table illustrates the maximum outstanding share awards, potential net dilution and actual dilution as at 31 August 2020:

| Plan | Maximum number of shares relating to award | % of issued share capital |
|---|---|---|
| Tim Carroll – PSP | 169,161 | 0.29% |
| Jeremy Wilson[1] – PSP | 133,037 | 0.23% |
| Other senior management – PSP | 148,648 | 0.25% |
| Other employee share option plans – EMI and CSOP | 1,072,701 | 1.84% |
| Options outstanding at end of period | 1,523,547 | 2.62% |
| Less: unallocated issued shares held in EBT[2] | (359,483) | (0.62%) |
| Potential net dilution | 1,164,064 | 2.00% |

1 When Jeremy Wilson leaves the company, 76,973 options, granted in 2018 and 2019, will lapse.

2 Represents the number of shares held by the EBT as at the IPO less the number of shares used by the EBT since then to satisfy options that have vested and been exercised. In addition, at 31 August 2020, the EBT also held 13,751 shares that had been allocated but not issued to the shareholders prior to the year end. Therefore, the total number of shares held by the EBT at 31 August 2020 was 373,234.

## Pension contribution

Tim Carroll and Jeremy Wilson are entitled to a pension contribution made by the company of 15% of annual base salary. They can elect to be paid the pension contribution in cash subject to a deduction in respect of employer's National Insurance contributions.

## Benefits

The company provides life assurance, membership of the Group's healthcare insurance scheme, critical illness insurance and travel insurance to the Executive Directors. These benefits do not form part of their pensionable earnings.

## Executive Directors' service contracts

The service contracts for the Executive Directors are terminable by either the company or the Executive Directors on not less than six months' notice. There are no predetermined special provisions for Executive Directors with regard to compensation in the event of loss of office.

## Non-executive Directors' terms of appointment

Paul Dean and David Bezem were appointed Non-executive Directors of the company for an initial period of three years from the IPO in December 2014. Their appointments were extended for a further period of three years from the date of their re-election at the AGM held on 10 January 2018. Naomi Climer was appointed a Non-executive Director on 25 May 2018 for an initial period of three years.

The appointment letters for the Non-executive Directors provide that no compensation is payable on termination. The appointments are terminable by the company or the Non-executive Directors on six months' notice.

# Directors' Remuneration Report continued

## Directors' emoluments table (audited)

| | | Salary/fees £'000 | Other taxable benefits £'000 | Annual bonus £'000 | Pension contribution £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | |
| Tim Carroll[1] | FY19 | 224 | 8 | 209 | 24 | 465 |
| | **FY20** | **285** | **6** | **342** | **34** | **667** |
| Jeremy Wilson[2] | FY19 | 179 | 2 | 185 | 23 | 389 |
| | **FY20** | **215** | **2** | **215** | **28** | **460** |
| Phil Dudderidge | FY19 | 178 | 5 | – | – | 183 |
| | **FY20** | **182** | **5** | **–** | **–** | **187** |
| **Non-executive Directors** | | | | | | |
| David Bezem[3] | FY19 | 40 | – | – | – | 40 |
| | **FY20** | **41** | **–** | **–** | **–** | **41** |
| Paul Dean[3] | FY19 | 40 | – | – | – | 40 |
| | **FY20** | **41** | **–** | **–** | **–** | **41** |
| Naomi Climer[4] | FY19 | 35 | – | – | – | 35 |
| | **FY20** | **36** | **–** | **–** | **–** | **36** |

1 The bonus for Tim Carroll comprises £228,000 paid in cash (FY19: £142,036), £57,000 taken as shares (FY19: £33,555) and £57,000 in the form of matching shares (FY19: £33,555).
The pension contribution was taken as additional taxed income net of the appropriate percentage of employer's National Insurance which would not otherwise have fallen due, and Tim Carroll elected to use £2,629 (FY19: £4,858) of this in respect of the costs of leasing a car.

2 The bonus for Jeremy Wilson comprises £215,000 paid in cash (FY19: £95,594), £nil taken as shares (FY19: £44,675) and £nil in the form of matching shares (FY19: £44,675).
The pension contribution was taken as additional taxed income net of the appropriate percentage of employer's National Insurance which would not otherwise have fallen due.

3 The remuneration for both David Bezem and Paul Dean comprises a basic fee of £35,700 per annum for their roles as Non-executive Directors of the Group and an additional £5,000 per annum for their roles as Chairs of Board Committees.

4 Naomi Climer's basic fee for her role as Non-executive Director of the Group was £35,700.

## Approval

This report was approved by the Directors and signed by order of the Board.

**David Bezem**
**Chairman of the Remuneration Committee**
17 November 2020

# Directors' Report

For the year ended 31 August 2020



The Directors present their report and audited financial statements for the year ended 31 August 2020.

This report contains certain statutory, regulatory and other information and incorporates, by reference to, certain disclosures included elsewhere in this Annual Report.

## Activities and general information

Focusrite plc (the 'Company' or the 'Parent Company') is an AIM quoted company.

The Parent Company owns a number of trading subsidiary companies:

- FAEL and its subsidiaries – Focusrite Novation, Inc based in Los Angeles, supports the US market with marketing, customer support and retail channel communication and – Focusrite Novation Asia Limited based in Hong Kong, provides the region with sales management, marketing and customer support.
- ADAM Audio GmbH, a leading manufacturer of studio monitors, and its subsidiaries. The Company acquired ADAM Audio GmbH's parent company, Pro Audio Beteiligungs GmbH, in July 2019.
- Martin Audio Limited, a company that enjoys an international reputation for the manufacturing and distribution of touring sound systems and loudspeakers. The company caters to large arena musical groups and performers, touring acts, and entertainment performances. The Company acquired Martin Audio Limited's parent company, Optimal Audio Group Limited in December 2019.

The company is incorporated in the UK and registered in England and Wales with company number 09312676. The address of its registered office is at:

Windsor House
Turnpike Road
High Wycombe
Buckinghamshire
HP12 3FX

## AGM notice

The notice convening the AGM to be held on 17 December 2020, together with an explanation of the resolutions to be proposed at the meeting, will be contained in a separate circular to shareholders and will be available on the company's website at http://focusriteplc.com/investors/aim-rule-26.

## Capital – allocation

The company seeks to deliver future earnings growth and strong cash returns. The Board has a capital allocation policy:

- Reinvestment for growth – the Group invests in constant product innovation to drive growth in core markets.
- Returns to shareholders – the Group regularly pays a dividend to shareholders, currently representing approximately 13% of underlying adjusted earnings.
- Acquisition – the Group has significantly supplemented its organic growth by acquiring companies with promising technologies and in markets adjacent to, and consistent with, our current capabilities. In 2019, we acquired the Pro Audio Beteiligungs GmbH group which added the ADAM Audio monitors to our portfolio and the Optimal Audio Group Limited which added the Martin Audio speakers and live sound market to our portfolio.
- Balance sheet leverage and return of excess capital – the Group maintains an efficient balance sheet, appropriate to our investment requirements and mindful of the preferences of all our stakeholders.

## Capital – shares and major shareholders

Details of the company's share capital are shown in note 28 to the financial statements.

At the financial year end 31 August 2020, the company had 58,111,639 (31 August 2019: 58,111,639) ordinary shares of £0.001 each in issue. The shares are traded on AIM, a market operated by the London Stock Exchange. The rights and obligations attached to the shares are set out in the company's Articles of Association which are available on the company's website.

As at 13 October 2020, the company had been notified of the following substantial interests in 3% or more of its ordinary shares:

| Shareholder | 13 October 2020 | % IC |
|---|---|---|
| Focusrite plc Directors and related parties (London) | **21,031,689** | 36.19 |
| Sanford DeLand Asset Management (Manchester) | **7,245,000** | 12.47 |
| Charles Stanley (London) | **5,069,416** | 8.72 |
| Aberdeen Standard Investments (Standard Life) (Edinburgh) | **4,447,032** | 7.65 |
| Canaccord Genuity Wealth Management (London) | **4,240,000** | 7.30 |
| Liontrust Asset Management (London) | **2,696,650** | 4.64 |

These holdings may have changed since the company was notified. Notification of any change is not required until the next notifiable threshold is crossed.

# Directors' Report continued

For the year ended 31 August 2020

The company has an established Employee Benefit Trust ('EBT') which holds shares in the company to facilitate share-based emolument payments and the Group Share Incentive Plan ('CSOP'). Following the vesting of share options during FY20, as at 31 August 2020 the EBT holding had reduced to 359,483 (2019: 782,652) ordinary shares of £0.001 each for the satisfaction of future vesting share options. The EBT has waived its right to dividends.

Details of ordinary shares under option in respect of the company's share schemes are shown in note 31 to the financial statements.

The Articles of Association do not contain any restrictions on the transfer of ordinary shares in the capital of the company other than the usual restrictions, which are applicable where a share instrument is not duly stamped or certified as exempt from stamp duty, is in respect of more than one class of share, relates to joint transferees and such transfer is in favour of more than four such transferees, or relates to shares that are not fully paid. The rules of the CSOP set out the consequences in the event of a change of control.

## Corporate governance

The Company's statement on corporate governance can be found in the Corporate Governance Report on page 46. The Corporate Governance Report forms part of this Directors' Report and is incorporated into it by cross-reference.

## Directors and their interests

The Directors of the company who served during the year ended 31 August 2020 and subsequently are as follows:

| Executive Directors | Non-executive Directors |
|---|---|
| Chairman – Phil Dudderidge | David Bezem |
| Chief Executive Officer – Tim Carroll | Naomi Climer |
| Chief Financial Officer – Jeremy Wilson[1] | Paul Dean |

1 Jeremy Wilson tendered his resignation during the year. He will be succeeded by Sally McKone, Divisional Finance and IT Director for Precision Engineering (Norgren), the largest subsidiary of IMI plc, who accepted the position in August 2020. The Company announced the appointment to the City on 1st September 2020.

The Executive Directors have service contracts in place with a six-month notice period.

| Date of appointment | Non-executive Directors |
|---|---|
| December 2014 | Paul Dean and David Bezem were appointed Non-executive Directors of the Group for an initial period of three years.<br><br>Their appointments were extended for a further period of three years from the date of their re-election at the AGM held on 10 January 2018. |
| May 2018 | Naomi Climer was appointed a Non-executive Director for an initial period of three years. |

Details of each Director's contractual arrangements, including notice periods, are included as part of the Directors' Remuneration Report on page 55 and that information is incorporated by reference into the Directors' Report.

Directors are subject to annual re-election in line with best practice and details of Directors' remuneration, service agreements and interests in the share capital of the Company are given in the annual report on remuneration on pages 55 to 60.

The Chairman owns a small property which the Group leases. Details are in note 36 to the financial statements. Other than this, no Director, spouse or dependant has had any material interest in any contract of significance with the Company or any of its subsidiaries during the year under review.

## Directors' indemnities and liability insurance

Per the Articles of Association, in accordance with section 234 of the Companies Act 2006, the officers of the Company and its subsidiaries are indemnified in respect of proceedings which might be brought by a third party. No cover is provided for Directors and officers in respect of any fraudulent or dishonest actions. No such indemnities have been granted. The Company maintains Directors' and officers' liabilities insurance to provide appropriate cover for any legal action brought against its Directors.

## Dividends

Subject to shareholder approval at the AGM on 17 December 2020, the Board proposes paying a final dividend of 2.9p per ordinary share (2019: 2.6p) on 29 January 2021 to the shareholders on the register at the close of business on 8 January 2021.

## Employees

The company's strategy is to be a great place to work. Part of this means ensuring adequate provision for the welfare and health and safety of its employees and of other people who may be affected by our activities and the Group is committed to ensuring there are equal opportunities for all employees, irrespective of age, gender, ethnicity, race, religion and belief, sexual orientation, disability and marital status. All people are treated fairly and equally. Applications for employment are reviewed equally, with a focus on applicants' ability, experience and the requirements of the job.

## Ethical business practices

The company has a zero tolerance approach to bribery and corruption and is committed to ensuring that it has effective processes and procedures in place to counter that risk. A formal anti-bribery policy is in place and training is undertaken annually. The policy is reviewed on a regular basis by the Audit Committee. The anti-bribery policy and whistleblowing policy are reviewed annually by the Audit Committee.

## Financial risk management

The Company uses financial instruments to manage certain types of risks, including those relating to credit and foreign currency exchange. The Group's objectives and policies on financial risk management including information on liquidity, capital, credit and risk can be found in note 33 to the Group's financial statements.

## Future business developments

The company's business development strategy is detailed on page 14 and is incorporated into this report by reference.

## Going concern

The Group's activities and an outline of the risk factors and developments taking place in relation to its products, services and marketplace are considered in the Strategic Report on pages 1 to 41. The revenue, trading results and cash flows are explained in the Financial Review on pages 20 to 25. Note 33 to the financial statements sets out the Group's financial risks and the management of capital risks. The Group is profitable and expects to continue to be so, with significant cash resources, a high and continuing level of revenue and also high levels of cash conversion expected for the foreseeable future. The Group has in place a £40 million revolving credit facility with HSBC and NatWest expiring 18 December 2024. The Directors considered the going concern assumption and after careful enquiry and review of available financial information, including detailed projections of profitability and cash flows for the next three years, the Directors believe that the Group has adequate resources to continue to operate for the foreseeable future and that it is therefore appropriate to continue to adopt the going concern basis of accounting in the preparation of the consolidated and Company financial statements.

## Modern Slavery Act

The Company is committed to conducting business responsibly and takes action to ensure that our supply chains operate to those same high standards, including in relation to employment practices, workplace conditions and, more specifically, the prevention of forced, bonded and trafficked labour. This is upheld through the Group's policies and processes which are fully supported by the Board. The steps taken to help manage the risks outlined by the legislation are detailed in our Slavery and Human Trafficking Statement which is published annually on our website.

## Political donations

No political donations were made in 2020 (2019: £nil).

## Research and development

Research and development expenditure capitalised in the year amounted to £4.6 million (2019: £3.8 million) as the Group continues to invest in its R&D activities.

## Shareholder and voting rights

All members who hold ordinary shares are entitled to vote at the AGM. Due to the outbreak of COVID-19 and subsequent guidance on gatherings, this year's meeting will be held as a closed meeting and shareholders will not be able to attend. Voting will be by completion of a proxy appointment form.

The Notice of Meeting specifies the deadlines for exercising voting rights.

The company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and voting rights. There are no restrictions on the transfer of ordinary shares in the company other than certain restrictions imposed by laws and regulations (such as insider trading laws and market requirements relating to closed periods) and requirements of internal rules and procedures whereby Directors and certain employees of the company require prior approval to deal in the company's securities.

## Shareholder engagement

During the year, the Chief Executive Officer and Chief Financial Officer held one-to-one meetings, calls, roadshows and conferences with institutional investors.

During 2020, the company has engaged with investors on a range of topics, including:

- The Chief Executive Officer and Chief Financial Officer provide the key focus for engagement with shareholders and prospective investors. During the year, a programme of meetings with analysts and institutional shareholders took place. Investors and analysts are also shown demonstrations of some of the Group's key forthcoming and existing products from time to time.
- The company's largest shareholders are invited to the annual and half year results presentations, at which Executive Directors are present.
- The Group's corporate broker provides written feedback on market reaction and investor views after full and half year results announcements and investor roadshows.
- Reports from the Directors who have direct dialogue with shareholders.
- Analyst/broker reports and views.
- Shareholder feedback reports and statements made by representative associations.
- All shareholders have an opportunity to ask questions or represent their views formally to the Board at the AGM, or with Directors after the meeting.
- The interests of investors were considered as part of the Board's decisions throughout the year including with regard to the interim and final dividends.
- The Chairman and Non-executive Directors are also available separately to shareholders as and when required. Feedback from any such communications is provided to the Board at the next scheduled meeting.
- The company has a dedicated investors section on its corporate website, http://focusriteplc.com/, together with a wide range of information on the Group's activities, including all regulatory announcements.

## Statement as to disclosure of information to the auditor

The Directors have confirmed, as far as they are aware, that there is no relevant audit information of which the auditor is unaware. The Directors have individually confirmed that they have taken all reasonable steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor. The auditor, KPMG LLP, has indicated its willingness to be reappointed and, in accordance with section 489 of the Companies Act 2006, a resolution for reappointment will be proposed at the AGM.

By order of the Board

**Francine Godrich**
**Company Secretary**
17 November 2020

# Statement of Directors' Responsibilities

## In respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the EU (IFRS as adopted by the EU) and applicable law and they have elected to prepare the Parent Company financial statements with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRS as adopted by the EU;
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a strategic report and a directors' report that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Independent Auditor's Report

To the members of Focusrite plc



## 1. Our opinion is unmodified

We have audited the financial statements of Focusrite PLC ("the Company") for the year ended 31 August 2020 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position and Parent Company Balance sheet, Consolidated and Parent Company Statement of Changes in Equity, Consolidated Cash Flow Statement, and the related notes, including the accounting policies in note 3.

**In our opinion:**

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 August 2020 and of the Group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

**Overview**

| | | |
|---|---|---|
| **Materiality:** group financial statements as a whole | £930,000 (2019: £600,000) 4.9% (2019: 4.9%) of group profit before tax. | |
| **Coverage** | 100% (2019: 100%) of group profit before tax | |
| **Key audit matters** | | **vs 2019** |
| **Recurring risks** | Capitalisation of internally-generated intangible assets | ◀▶ |
| **Event driven** | Recoverability of acquired goodwill in Martin Audio CGU | ▲ |
| | Acquisition accounting | ▲ |
| | Recoverability of investment in and debt due from Martin Audio entities | ▲ |

We continue to perform procedures over the impact of Brexit. However, following the additional mitigations put in place by the company, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

We continue to perform procedures over the recoverability of investments held by Focusrite PLC in ADAM Audio and Focusrite Audio engineering Limited. However, following the current year performance of these subsidiaries, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

# Independent Auditor's Report continued

To the members of Focusrite plc

## 2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

| | The risk | Our response |
|---|---|---|
| **Recoverability of acquired goodwill in Martin Audio CGU**<br>(£2.3 million; 2019: £0 million)<br><br>*Refer to pages 26-30 (principal risks), pages 52-54 (Audit Committee Report), page 83 (accounting policy) and pages 94-95 (financial disclosures).* | **Subjective estimate:**<br>As the COVID-19 pandemic has resulted in government restrictions impacting the live music performance industry, the directors have estimated a recoverable amount of the Martin Audio CGU, which resulted in a £10.2 million impairment of the £12.5 million in goodwill recognised as a result of the acquisition. The estimated recoverable amount is subjective due to the inherent uncertainty involved in assumptions of revenue growth, long-term growth, and discount rates used in the discounted cash flows. As such, the remaining goodwill balance for the Martin Audio CGU of £2.3 million is at risk of irrecoverability.<br><br>The effect of these matters is that, as part of our risk assessment for audit planning purposes, we determined that the value in use had a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. In conducting our final audit work, we reassessed the degree of estimation uncertainty to be greater than that materiality. The financial statements (note 18) disclose the sensitivity estimated by the Group. | Our procedures included:<br>• **Historical accuracy:** Evaluated historical forecasting accuracy of key inputs, including cash forecasts by comparing the historical annual forecasts to the actual results;<br>• **Historical comparisons:** Assessed the appropriateness of the key assumptions used in the cash flow projections by comparing those, where appropriate, to historical trends and external data;<br>• **Benchmarking assumptions:** Compared the CGU discount rate and long-term growth rate calculation to comparative companies' rates. Additionally, we compared the CGU discount rate to our own calculated discount rate, using our own valuation specialists.<br>• **Sensitivity analysis:** Performed a sensitivity analysis over the reasonably possible combination of changes in the forecasts including but not limited to the impact of potential downside scenarios including changes in the discount rate, long term growth rate and limited to no growth in the forecast period.<br>• **Comparing valuations:** Compared the sum of the discounted cash flows to the group's market capitalisation to assess the reasonableness of those cashflows; and<br>• **Assessing transparency:** Assessed whether the group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of goodwill. |

| | The risk | Our response |
|---|---|---|
| **Acquisition accounting**<br>(£39.6 million; 2019: £15.3 million)<br><br>*Refer to pages 52-54 (Audit Committee Report), page 79 (accounting policy) and pages 87-88 (financial disclosures).* | **Subjective valuation:**<br>During the year ended 31 August 2020, the Group acquired a 100% equity interest in Optimal Audio Limited (known as Martin Audio) for a total consideration of £39.6 million. The fair values of identifiable net assets acquired on the date of acquisition amounted to £26.8 million and goodwill arising from the acquisition amounted to £12.8 million.<br><br>The Group exercised both, judgement in selecting the most appropriate valuation method for the intangible assets acquired, as well as estimation in the value of those intangible assets. Although judgement was exercised by management as part of the process, the key audit matter relates to the estimation used in valuing the intangible assets only. The valuation methods included the use of forecast cash flows which required the directors to exercise estimation in determining the expected cash flows from the assets and the discount rates to be applied.<br><br>There is also a risk that the business combination is not accounted for in accordance with the relevant accounting standard resulting in inappropriate under or over valuation of amortisable intangibles, with consequential impacts on goodwill. | Our procedures included:<br>• **Assessment of management's expert:** We carried out an assessment as to whether the experts engaged by management had the necessary competence to carry out the acquisition accounting work, and whether the scope was in line with our expectations.<br>• **Our sector experience:** We benchmarked the discount rates against peers in the same or similar industry.<br>• **Tests of detail:** We read the acquisition agreements and assessed whether the assets and liabilities acquired reflect the contractual terms.<br>• **Tests of detail:** We evaluated the appropriateness of the acquisition accounting against the requirements of the relevant accounting standards. We tested the appropriateness of the amounts recorded by agreeing these to the Sale and Purchase agreement and underlying calculations supported by documentary evidence as appropriate.<br>• **Tests of detail:** We evaluated the valuation methodology used by the Group. This included assessing the intangible assets acquired, and the basis of their valuation.<br>• **Tests of detail:** We assessed the key assumptions used in the value in use model including the discount rate, cash flows and their growth rates. This involved recalculating the discount rates and performing sensitivity analysis on discount rates and cash flows and their growth. We also evaluated management's ability to forecast by comparing previous years budgets to actual results.<br>• **Assessing transparency:** We assessed the adequacy of the Group's disclosures in respect of the business combinations in Note 5 to the financial statements. |

# Independent Auditor's Report continued

To the members of Focusrite plc

| | The risk | Our response |
|---|---|---|
| **Capitalisation and recoverability of internally-generated intangible asset**<br>(£4.6 million capitalised in year; 2019: £3.8 million capitalised in year)<br>(£8.2 million net book value; 2019: £7.9 million net book value)<br><br>*Refer to page 52-54 (Audit Committee Report), page 82-83 (accounting policy) and page 96 (financial disclosures).* | **Accounting application:**<br>The Group incurred significant research and development costs in the year, some of which were considered to meet the criteria for capitalisation as development costs.<br><br>There is judgement involved in determining whether a particular project or activity has met these criteria and therefore must be capitalised. The complexity in this judgement means that there is a risk that capitalisation occurs on projects that do not meet these criteria or, conversely, that development costs meeting the criteria for capitalisation are expensed.<br><br>In particular, the criteria requiring the most significant judgement for this Group is the ability to measure reliably the expenditure attributable to the specific projects and demonstration of how the projects will generate future earnings.<br><br>**Subjective estimate:**<br>Estimation is required in determining the amount of costs to be capitalised, specifically the employee and management costs. The effect of these matters is that, as part of our risk assessment, we deem that the determination of the costs to be capitalised has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. | Our procedures included:<br>• **Accounting analysis:** Assessed the adequacy of the Group's capitalisation methodology based on our knowledge of the Group and applicable accounting standards;<br>• **Tests of detail:** For a sample of projects in which capitalisation commenced in the year we obtained and assessed managements judgement around meeting the IAS 38 criteria and corroborated back to supporting evidence;<br>• **Testing application:** In order to test each project's ability to generate future earnings, we gained an understanding of the respective projects and the forecast demand for the products through inquiry with the product development director and challenged this assessment by comparison to historic trends;<br>• **Tests of detail:** We tested a sample of the capitalised costs back to source data to ensure the amounts being capitalised are accurate. Our procedures included testing whether the costs incurred met the criteria for capitalisation by obtaining the Directors' analysis of all costs incurred and those that had been capitalised and considering on which development activity they had been incurred, together with plans to complete the development activity; and<br>• **Assessing transparency:** Assessing the adequacy of the Group's disclosures about the judgements in concluding that the capitalisation criteria had been met and the degree of estimation involved in capitalising development costs. |
| **Recoverability of investment in and debt due from Martin Audio entities**<br>(Investment balance £14.6 million; 2019: £0 million)<br><br>(Intra-group debtor balance £14.4 million; 2019: £0 million)<br><br>*Refer to page 113 (accounting policy) and page 116 (financial disclosures).* | **Subjective estimate:**<br>As a result of the acquisition of Martin Audio, the parent company recognised an investment in Martin Audio subsidiary of £26.8 million and a intra-group debtor balance of £14.4 million.<br><br>As the COVID-19 pandemic has resulted in government restrictions impacting the live music performance industry, the directors have estimated a recoverable amount of the investment held in Martin Audio, which resulted in an impairment of £10.2 million. The estimated recoverable amount of these balances are subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. As such, the remaining investment held in Martin Audio of £14.6 million and the intra-group debtor of £14.4 million is at risk of recoverability.<br><br>The effect of these matters is that, as part of our risk assessment for audit planning purposes, we determined that the value in use had a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. In conducting our final audit work, we reassessed the degree of estimation uncertainty to be greater than that materiality. | Our procedures included:<br>• **Tests of detail:** Comparing the carrying amount of 100% of investments in the total investment balance with the relevant subsidiaries' balance sheets to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making.<br>• **Assessing subsidiary audits:** Considering the results of our audit work on the profits and net assets of those subsidiaries.<br>• **Comparing Valuations:** Compared the carrying amount of the investment in the subsidiaries and the intra-group debtor balance to the estimated value in use calculated by management for the annual impairment testing for those subsidiaries to determine if the investment balance is recoverable. |

### 3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £930,000 (2019: £600,000), determined with reference to a benchmark of group profit before tax, normalised to exclude this year's acquisition costs and impairment recognised as disclosed in note 14 (of which it represents 4.9%) (2019: 4.9% Group adjusted profit before taxation). The group team performed procedures on the items excluded from normalised group profit before tax. Materiality for the parent company financial statements as a whole was set at £560,000 (2019: £480,000), determined with reference to a benchmark of company total assets, of which it represents 1% (2019: 1%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £46,500 (2019: £30,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's six (2019: five) reporting components, four were subject to audit for group reporting purposes (2019: three), and two (2019: two) were subject to risk based analytical procedures. The latter were not individually financially significant enough to require a full scope audit for group purposes, but were included in the full scope of our group reporting work in order to provide further coverage over the group's results The components within the scope of our work accounted for the percentages illustrated opposite.

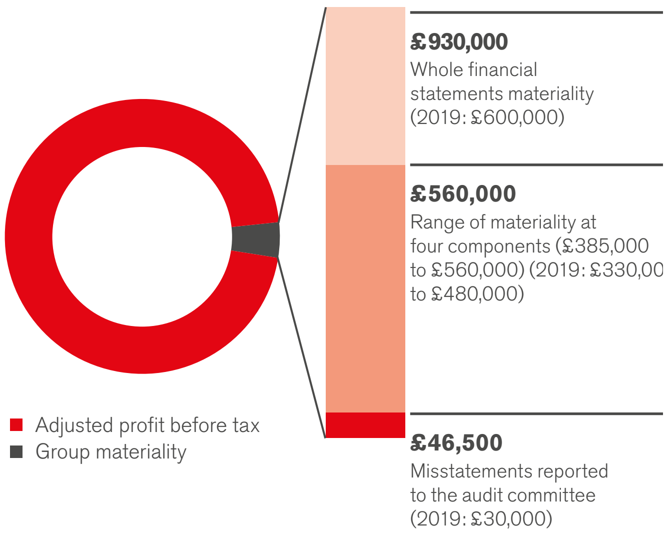
The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back.

The Group team approved the component materiality's which ranged from £385,000 to £560,000 (2018: £330,000 to £480,000), having regard to the mix of size and risk profile of the Group across components. The work on one (2019: one) of the components subject to full scope audit was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team.

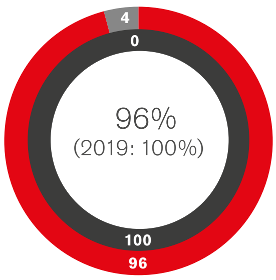
Due to COVID-19 restrictions the Group team visited nil (2019: one) full scope audit component location in Germany. To compensate for not being able to visit the component the group audit team were involved in a number of progress calls with the component auditor to monitor progress throughout the component audit. At these meetings, the findings reported to the Audit Committee were discussed in more detail, and any further work required by the Group team was then performed by the component auditors.

**Adjusted profit before tax**
£19.0m (2019: £13.0m)

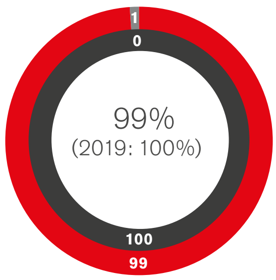
**Group Materiality**
£930,000 (2019: £600,000)



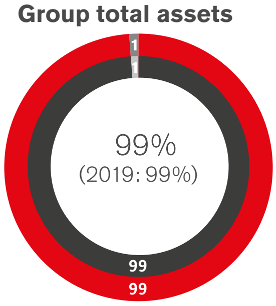

**Group revenue**



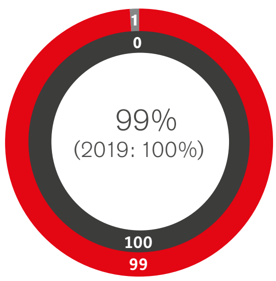

**Group profit before tax**




**Group total assets**




**Group profit before exceptional items and tax**




- Full scope for group audit purposes 2020
- Specified risk-focused audit procedures 2020
- Full scope for group audit purposes 2019
- Specified risk-focused audit procedures 2019
- Residual components

# Independent Auditor's Report continued

To the members of Focusrite plc

## 4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- The impact of COVID-19 on the Group's revenue.
- The impact of increased US and China import tariffs.

As these were risks that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit and the erosion of customer or supplier confidence, which could result in a rapid reduction of available financial resources.

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

## 5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

### Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

## 6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

## 7. Respective responsibilities

### Directors' responsibilities

As explained more fully in their statement set out on page 64, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

## 8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

**Michael Froom**
**(Senior Statutory Auditor)**
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

17 November 2020

# Consolidated Income Statement

**For the year ended 31 August 2020**

| | Note | 2020 £'000 | 2019 £'000 |
|---|---|---|---|
| **Revenue** | 6 | **130,141** | 84,665 |
| Cost of sales | | **(70,248)** | (48,899) |
| **Gross profit** | | **59,893** | 35,766 |
| Administrative expenses | | **(51,485)** | (22,994) |
| Impairment (loss)/gain on trade and other receivables | | **(474)** | 40 |
| **Adjusted EBITDA (non-GAAP measure)** | | **28,565** | 17,197 |
| Depreciation and amortisation | | **(5,530)** | (3,648) |
| Non-underlying items for Adjusted EBITDA: | | | |
| Amortisation of acquired intangible assets | 14 | **(3,013)** | – |
| Impairment of goodwill on acquisition | 14 | **(10,200)** | – |
| Non-underlying items | 14 | **(1,888)** | (737) |
| **Operating profit** | | **7,934** | 12,812 |
| Finance income | 10 | **36** | 246 |
| Finance costs | 11 | **(945)** | (45) |
| **Profit before tax** | | **7,025** | 13,013 |
| Income tax expense | 15 | **(2,934)** | (1,349) |
| **Profit for the period from continuing operations** | | **4,091** | 11,664 |
| | | | |
| **Earnings per share** | | | |
| From continuing operations | | | |
| Basic (pence per share) | 17 | **7.1** | 20.4 |
| Diluted (pence per share) | 17 | **7.0** | 20.1 |

The accompanying notes on pages 77 to 110 form part of these financial statements.

# Consolidated Statement of Comprehensive Income

For the year ended 31 August 2020

| | Note | 2020 £'000 | 2019 £'000 |
|---|---|---|---|
| **Profit for the period (attributable to equity holders of the company)** | | **4,091** | 11,664 |
| *Items that may be reclassified subsequently to the income statement* | | | |
| Exchange differences on translation of foreign operations | | **105** | 42 |
| Profit/(loss) on forward foreign exchange contracts designated and effective as a hedging instrument | | **459** | (245) |
| Tax on hedging instrument | 24 | **(87)** | 47 |
| **Total comprehensive income for the period** | | **4,568** | 11,508 |
| **Total comprehensive income attributable to:** | | | |
| Equity holders of the company | | **4,568** | 11,508 |
| | | **4,568** | 11,508 |

The accompanying notes on pages 77 to 110 form part of these financial statements.

# Consolidated Statement of Financial Position

For the year ended 31 August 2020

| | Note | 2020 £'000 | 2019 £'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Goodwill | 18 | **7,882** | 5,271 |
| Other intangible assets | 19 | **40,374** | 18,832 |
| Property, plant and equipment | 20 | **4,082** | 1,602 |
| **Total non-current assets** | 7 | **52,338** | 25,705 |
| **Current assets** | | | |
| Inventories | 22 | **19,372** | 15,182 |
| Trade and other receivables | 23 | **17,744** | 18,188 |
| Cash and cash equivalents | 30 | **14,975** | 15,505 |
| Derivative financial instruments | 33 | **271** | – |
| **Total current assets** | | **52,362** | 48,875 |
| **Total assets** | | **104,700** | 74,580 |
| **Equity and liabilities** | | | |
| **Capital and reserves** | | | |
| Share capital | 29 | **58** | 58 |
| Share premium | 29 | **115** | 115 |
| Merger reserve | 29 | **14,595** | 14,595 |
| Merger difference reserve | 29 | **(13,147)** | (13,147) |
| Translation reserve | 29 | **197** | 92 |
| Hedging reserve | 29 | **220** | (152) |
| EBT reserve | 29 | **(1)** | (1) |
| Retained earnings | | **54,861** | 51,827 |
| **Equity attributable to owners of the company** | | **56,898** | 53,387 |
| **Total equity** | | **56,898** | 53,387 |
| **Current liabilities** | | | |
| Trade and other payables | 26 | **23,417** | 15,664 |
| Other liabilities | 25 | **1,018** | – |
| Current tax liabilities | | **452** | 430 |
| Derivative financial instruments | 33 | **–** | 188 |
| Provisions | 27 | **1,094** | – |
| Bank overdraft | | **–** | 627 |
| **Total current liabilities** | | **25,981** | 16,909 |
| **Non-current liabilities** | | | |
| Deferred tax | 24 | **7,772** | 4,284 |
| Other liabilities | 25 | **889** | – |
| Provisions | 27 | **1,519** | – |
| Bank loan | | **11,641** | – |
| **Total liabilities** | | **47,802** | 21,193 |
| **Total equity and liabilities** | | **104,700** | 74,580 |

The financial statements were approved by the Board of Directors and authorised for issue on 17 November 2020. They were signed on its behalf by:

**Jeremy Wilson**
**Chief Financial Officer**

The company number of Focusrite plc is 09312676
The accompanying notes on pages 77 to 110 form part of these financial statements.

# Consolidated Statement of Changes in Equity

**For the year ended 31 August 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 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 | – | – | – | – | – | – | – | (204) | (204) |
| Premium on shares issued in lieu of bonuses | – | – | – | – | – | – | – | 175 | 175 |
| Dividends paid | – | – | – | – | – | – | – | (2,005) | (2,005) |
| Balance at 1 September 2019 | 58 | 115 | 14,595 | (13,147) | 92 | (152) | (1) | 51,827 | 53,387 |
| **Profit for the period** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **4,091** | **4,091** |
| **Other comprehensive income for the period** | **–** | **–** | **–** | **–** | **105** | **372** | **–** | **–** | **477** |
| **Total comprehensive income for the period** | **–** | **–** | **–** | **–** | **105** | **372** | **–** | **4,091** | **4,568** |
| **Transactions with owners of the company:** | | | | | | | | | |
| **Share-based payment deferred tax deduction in excess of remuneration expense** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **162** | **162** |
| **Share-based payment current tax deduction in excess of remuneration expense** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **457** | **457** |
| **Shares from EBT exercised** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **252** | **252** |
| **Share-based payments** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **537** | **537** |
| **Shares withheld to settle employees' tax obligations** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(192)** | **(192)** |
| **Premium on shares issued in lieu of bonuses** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(22)** | **(22)** |
| **Dividends paid** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(2,251)** | **(2,251)** |
| **Balance at 31 August 2020** | **58** | **115** | **14,595** | **(13,147)** | **197** | **220** | **(1)** | **54,861** | **56,898** |

The accompanying notes on pages 77 to 110 form part of these financial statements.

# Consolidated Cash Flow Statement

**For the year ended 31 August 2020**

| | Note | 2020 £'000 | 2019 £'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit for the financial year | | **4,091** | 11,664 |
| Adjustments for: | | | |
| Income tax expense | 15 | **2,934** | 1,349 |
| Net interest | 10, 11 | **909** | (201) |
| Loss/(profit) on disposal of property, plant and equipment | | **–** | 3 |
| Amortisation of intangibles | 19 | **6,780** | 2,936 |
| Impairment of goodwill | 18 | **10,200** | – |
| Depreciation of property, plant and equipment | 20 | **1,777** | 712 |
| Share-based payments charge | 31 | **537** | 348 |
| Operating cash flows before movements in working capital | | **27,228** | 16,811 |
| (Increase)/decrease in trade and other receivables | | **3,839** | (4,203) |
| (Increase)/decrease in inventories | | **1,914** | (696) |
| Increase/(decrease) in trade and other payables | | **7,932** | 2,681 |
| Operating cash flows before interest and tax paid | | **40,913** | 14,593 |
| Net interest received/(paid) | | **(441)** | 58 |
| Income taxes paid | | **(3,539)** | (825) |
| Cash generated by operations | | **36,933** | 13,826 |
| Net foreign exchange movements | | **(322)** | 185 |
| **Net cash from operating activities** | | **36,611** | 14,011 |
| **Investing activities** | | | |
| Purchases of property, plant and equipment | 20 | **(3,966)** | (808) |
| Purchases of intangible assets | 19 | **(5,649)** | (4,210) |
| Proceeds from disposal of property, plant and equipment | | **–** | 25 |
| Proceeds from disposal of other intangible assets | | **–** | 50 |
| Acquisition of subsidiary, net of cash acquired | | **(35,309)** | (14,996) |
| **Net cash used in investing activities** | | **(44,924)** | (19,939) |
| **Financing activities** | | | |
| Issue of equity shares | | **–** | – |
| Proceeds from loans and borrowings | 33 | **36,000** | – |
| Repayments of loans and borrowings | 33 | **(24,000)** | – |
| Loan arrangement fee | 33 | **(359)** | – |
| Payment of right-of-use liabilities | | **(939)** | – |
| Payment of interest on right-of-use liabilities | | **(41)** | – |
| Equity dividends paid | 16 | **(2,251)** | (2,005) |
| **Net cash used in financing activities** | | **8,410** | (2,005) |
| **Net increase/(decrease) in cash and cash equivalents** | | **97** | (7,933) |
| **Cash and cash equivalents at beginning of year** | | **14,878** | 22,811 |
| **Cash and cash equivalents at end of year** | 30 | **14,975** | 14,878 |

The accompanying notes on pages 77 to 110 form part of these financial statements.

# Notes to the Financial Statements

For the year ended 31 August 2020



## 1 GENERAL INFORMATION

Focusrite plc (the 'company'), is a company incorporated in the UK. The consolidated financial statements ('financial statements') as at and for the year ended 31 August 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.

### Basis of preparation

***Statement of compliance***

The financial statements for the year ended 31 August 2020 are presented in Pounds Sterling ('GBP' thousands; £'000). This is the functional currency of the company. The financial statements have been prepared in accordance with 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 UK companies.

The company has elected to prepare its Parent Company accounts in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101').

These financial statements were authorised for issue by the company's Board of Directors on 17 November 2020.

## 2 ADOPTION OF NEW AND REVISED STANDARDS

In the current year, the Group has applied the annual improvements to IFRS 2015–2017 cycle, which is mandatorily effective. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

The Group has also applied IFRS 16 Leases for the first time in these financial statements. The effect of adoption of this new standard is described below.

### Standards not affecting the reported results or the financial position

At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- Annual improvements to IFRS 2018–2020 cycle
- Amendments regarding pre-replacement issues in the context of the IBOR reform
- Amendments to References to the Conceptual Framework in IFRS
- Amendments to IFRS 3 Business Combinations
- Amendments to IFRS 16 Leases
- Issue of IFRS 17 Insurance Contracts to replace IFRS 4 Insurance Contracts
- Amendments to IAS 1 Presentation of Financial Statement
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- Amendments to IAS 16 Property, Plant and Equipment
- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets

The standards have been reviewed to assess the impact they will have on future financial statements. No material impact is expected to the accounts and any changes are expected to be limited to changes to disclosures notes only.

### 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.

# Notes to the Financial Statements continued

For the year ended 31 August 2020

## 2 ADOPTION OF NEW AND REVISED STANDARDS CONTINUED

Right-of-use assets and lease liabilities of £2.8 million have been recognised by the Group at 1 September 2019. The impact on net profit after tax is not material. However, EBITDA has increased by £1.0 million in FY20 as the operating lease payments were previously included in FY19 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 previously rental payments were classified as operating cash flows. In FY20, the value of these payments was approximately £0.9 million.

The following table summarises the difference between the operating lease commitments disclosed under IAS 17 at 31 August 2019 in the Company's financial statements and the lease liabilities recognised at 1 September 2019:

| | 1 September 2020 £'000 |
|---|---|
| **Operating lease commitments at 31 August 2019 as disclosed under IAS 17** | **2,800** |
| Application exemption for short-term leases | **(19)** |
| Application exemption for leases of low value | **(189)** |
| Monthly payments that do not give rise to a right-of-use asset under IFRS 16 | **(30)** |
| Future lease commitments – leases or amended on or before 31 August 2019 | **(45)** |
| **Gross lease liabilities for former operating leases** | **2,517** |
| Discounting impact | **(239)** |
| **Total** | **2,278** |

## 3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently for all periods presented in the financial statements.

Any standards and interpretations that have been issued but are not yet effective, and that are available for early application, have not been applied by the Group in these financial statements.

### Basis of consolidation

The consolidated financial statements include the accounts of the company and all entities controlled by the Group from the date control commences until the date that control ceases. Control is achieved where the company:

- has the power over the investee;
- is exposed or has rights to a variable return from the involvement with the investee; and
- has the ability to use its power to affect its returns.

As such, the results of subsidiaries acquired during the year are included in the Consolidated Income Statement from the effective date of acquisition.

The consideration transferred in the acquisition is measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

### Going concern

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

The group meets its day to day working capital requirements from cash balances and a revolving credit facility of £40.0 million is due for renewal in December 2024. As further described in note 33 and below, the availability of the revolving credit facility is subject to continued compliance with certain covenants.

The COVID-19 virus has caused upheaval worldwide with many businesses experiencing a significant decline in revenue. The Directors have prepared projected cash flow forecasts for the period ending 12 months from the date of their approval of this financial statement. These forecasts include a severe but plausible downside scenario, which includes potential impacts from the continued uncertainty of COVID-19 (see overleaf).

The base case covers the period to December 2021 and includes demanding but achievable forecast growth. The forecast has been extracted from the Group's three-year plan. Key assumptions include:

- Future growth assumptions consistent with those recently achieved by the business excluding an estimate of the impact of COVID-19, but including the Group's expectation of Martin Audio recovery from the pandemic, and annualisation of Martin Audio results.
- Free cash flow as a percentage of revenue held steady compared to previous years.
- Continued investment in research and development in all areas of the Group.
- Dividends consistent with the Group's dividend policy.
- No additional investment in acquisitions in the forecast period.

Throughout the period the forecast cash flow information indicates that the Group will have sufficient cash reserves and comply with the leverage and interest cover covenants contained within the facility.

The Directors' 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 six-month period commencing November 2020. This model assumes that purchases of stock would, in time, reduce to reflect reduced sales, if they occurred, and the Group would respond to a revenue 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 0.2x compared to the maximum of 2.5x. The Group's net debt position under this severe plausible downside scenario would still be expected to improve at the end of the 12-month period.

Separately, the Directors estimate that if the Group were to experience a shortfall in revenue of greater than 90% for six months, debt and leverage could rise to the upper limits allowed by the banking covenants by April 21. This scenario includes consequential reductions in the purchases of stock and overheads. As an additional measure, the Directors could also cancel the dividend. However, the Directors view is that any scenario of a revenue shortfall of greater than 30% is not plausible.

In reality, the Group is still experiencing record levels of consumer registrations and customer demand, partially as a result of the COVID-19 restrictions on people's movement, and therefore the high levels of revenue have been maintained since year end. This is evidenced by improvements in the Group's net cash position which has increased from the £3.3 million reported at year end to approximately £8 million at 31 October 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 financial statements and therefore have prepared the financial statements on a going concern basis.

Further detail is contained in the Strategic Report on pages 1 to 41.

**Earnings per share**

The Group presents basic and diluted 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.

**Goodwill**

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the 'acquisition date'). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain. Further information about the assumptions made in measuring fair values of the acquisition of a subsidiary is included in note 5.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to the Group's cash-generating units ('CGUs') expected to benefit from synergies arising from the combination. CGUs to which goodwill has been attributed under IFRS 3 Business Combinations are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in determining profit or loss on disposal.

# Notes to the Financial Statements continued

For the year ended 31 August 2020

## 3 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

**Revenue recognition**

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Having identified the customer, the performance obligations and the transaction price, the revenue is recognised when the Group satisfies the performance obligations.

The value of revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of sales taxes and discounts.

Due to the fact that the vast majority of sales by Focusrite involve sale of goods, the timing of the revenue recognition is considered in relation to 'Performance obligations satisfied at a point in time' (IFRS 15; 38) when one of the following has occurred:

(a) The entity has a present right to payment for the asset.
(b) The customer has legal title to the asset.
(c) The entity has transferred physical possession of the asset.
(d) The customer has the significant risks and rewards of ownership of the asset.
(e) The customer has accepted the asset.

**Sale of goods**

The Group has three routes to market for the sale of goods: distributors, resellers and users. These cover all segments and geographical markets. Sales to distributors are made under contractual terms which mean that control is transferred when goods are shipped. The terms used for sales to resellers and sales to end users mean that control is transferred when goods are delivered.

**Sale of apps**

Revenue from the download of apps is recognised upon confirmation from the app store provider.

**Interest income**

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of other income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

**Non-underlying items**

Non-underlying items are those items that are unusual because of their size, nature or incidence. The Directors consider that these items should be separately identified within their relevant income statement category to enable a full understanding of the Group's result. Items included are one-off acquisition and restructuring costs.

**Leases**

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The accounting policy under IAS 17 and IFRIC 4 was to treat all the Group's leases as operating leases (leases in which a significant portion of the risks and rewards of ownership are retained by the lessor). Rentals payable under operating leases were charged to the income statement on a straight-line basis over the term of the relevant lease (net of any incentive received from the lessor). The impact of the change is disclosed in note 2.

IFRS 16 was adopted on 1 September 2019.

The Group recognises a right-of-use asset and lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-to-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the basis as those of property and equipment. In addition, the right-of-use asset is periodically assessed for impairment and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, if available, otherwise the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise fixed payments and variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in index or rate, of if the Group changes its assessment of whether it will exercise an extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets in 'Property, plant and equipment' and lease liabilities as 'Other liabilities' in the statement of financial position.

**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 (see below under financial instruments/ hedge accounting).
- For the purpose of presenting consolidated financial information, 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.

**Retirement benefit costs**
Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

**Equity-settled share-based payments**
The Group issues equity-settled payments to certain employees (including Directors). Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

Share options are valued at the date of grant using the Black-Scholes option pricing model for options with non-market vesting conditions attached and a simulation model for options with market vesting conditions attached, and are charged to operating profit over the vesting period of the award with a corresponding credit to retained earnings.

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options, the proceeds received net of attributable transaction costs are credited to share capital and, where appropriate, share premium account.

# Notes to the Financial Statements continued

For the year ended 31 August 2020

## 3 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

**Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax. It is recognised in the profit and loss except to the extent that it relates to a business combination, or items recognised directly in equity or in Other Comprehensive Income ('OCI').

**Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

**Deferred tax**

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are only recognised for taxable temporary differences arising on investments in subsidiaries, where the Group can foresee the reversal of the temporary difference and it is probable that the temporary difference will reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

**Tangible and intangible assets**

***Property, plant and equipment***

Other items of property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is recognised so as to write off the cost or valuation of assets less residual value over their useful lives, using the straight-line method, on the following bases:

| | |
|---|---|
| Plant, equipment and tooling | 3 to 5 years |
| Computer equipment | 2 to 3 years |
| Fixtures and fittings | 3 to 5 years |
| Leasehold improvements | 5 to 8 years |
| Customer demonstration units | 2 years |

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income on the transfer of the risks and rewards of ownership.

**Intangible assets**

Intangible assets are amortised over the following periods on a straight-line basis:

| | |
|---|---|
| Development expenditure | 2 to 11 years |
| Purchased intellectual property | 2 years |
| Licences | 2 to 5 years |
| Software | 2 years |
| Brand | 10 to 20 years |
| Product designs | 3 to 8 years |

The underlying business has remained the same with regards to the estimated useful life of the assets. However, the acquired businesses, ADAM Audio and Martin Audio, designs products with a longer saleable life and hence a longer amortisation period of up to 11 years.

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Group's development of new and enhanced products is recognised only if all of the following conditions are met:
- an asset is created that can be identified (such as a product design);
- the asset is technologically feasible;
- the Group intends to complete the asset and use or sell it;
- adequate technical, financial and other resources are available to complete the asset and use or sell it;
- it is probable and demonstrable that the asset created will generate future economic benefits; and
- the costs of developing this asset can be measured reliably. Costs include payroll costs plus project-specific subcontractor and materials costs.

Where no internally-generated intangible asset can be recognised, the expenditure is recognised as an expense in the period in which it is incurred.

**Impairment of goodwill and intangible assets with an indefinite useful life**
At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs.

Recoverable amount is the higher of: (i) fair value less costs to sell; and (ii) value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease to the extent that the revaluation balance is greater than the impairment loss.

Where an impairment loss subsequently reverses (excluding goodwill), the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years for the asset (or CGU). A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**Inventories**
Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using either the first-in, first-out method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

**Trade and other receivables**
Trade debtors, which generally have 30 to 60-day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. The company measures loss allowances at an amount equal to lifetime expected credit loss ('ECL'), except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition, which are measured as 12-month ECL (See the accounting policy on impairment in section (iv) below). Balances are written off when the probability of recovery is assessed as being remote.

**Financial instruments**
***(i) Recognition and initial measurement***
Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value, for an item not at fair value through profit and loss ('FVTPL'), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

# Notes to the Financial Statements continued

For the year ended 31 August 2020

## 3 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### *(ii) Classification and subsequent measurement*

**Financial assets**

*(a) Classification*

On initial recognition, a financial asset is classified as measured at: amortised cost or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash balances. Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

*(b) Subsequent measurement and gains and losses*

Financial assets at FVTPL – these assets (other than derivatives designated as hedging instruments) are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost – these assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

**Financial liabilities and equity**

Financial instruments issued by the company are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
(b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

### *(iii) Derivative financial instruments and hedging*

**Derivative financial instruments**

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

**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.

When the forecast transaction subsequently results in the recognition of a non-financial item (including a non-financial item that becomes a firm commitment for which fair value hedge accounting is applied – see below), the associated cumulative gain or loss is removed from the hedging reserve and is included in the initial carrying amount of the non-financial asset or liability.

For all other hedged forecast transactions, 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 expected future cash flows affects profit or loss.

When the hedging instrument is sold, expires, is 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.

***(iv) Impairment of financial assets***

The company recognises loss allowances for ECLs on financial assets measured at amortised cost and contract assets (as defined in IFRS 15).

The company measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition, which are measured as 12-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL. Trade receivables and contract assets with significant financing component are measured using the general model described above.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company's historical experience and informed credit assessment and including forward-looking information.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the company is exposed to credit risk.

**Measurement of ECLs**

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the company expects to receive). ECLs are discounted at the effective interest rate of the financial asset. The Group has insurance on debts of up to £12.5 million. Therefore, ECLs focus primarily on uninsured debts that are considered impaired.

**Credit-impaired financial assets**

At each reporting date, the company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

**Write-offs**

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

# **Notes to the Financial Statements** continued

For the year ended 31 August 2020

## 4 JUDGEMENTS AND ESTIMATIONS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

The following are the important judgements and estimations that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial information.

**Judgements**

***Revenue recognition***

Stock is sold and revenue recognised when we have satisfied our performance obligations to distributors and dealers. The key judgement required is in the USA where the Group has a single distributor: American Music & Sound.

The Group's subsidiary, Focusrite Novation Inc. ('FNI') works closely with AMS to market the Group's products and maintain relationships with AMS' customers.

However, in the judgement of the Directors, the Group does not have continuing managerial involvement over the goods sold to the degree usually associated with ownership, thereby signalling that AMS is a principal, rather than an agent of the Group. The reasons for this view include the facts that AMS has responsibility for providing goods to the customer, responsibility for the collection of payments from their customers and has no right of return to the Group. Additionally, under the terms of sale, control of goods is passed to AMS before they are transferred to the customer. This judgement is consistent with prior periods.

**Estimates**

The Directors believe that the following estimates are critical due to the degree of estimation required, and that they have the risk of material change which could impact upon the financial statements of future periods.

**Impairment of intangible assets with indefinite lives**

The Group has intangible assets with indefinite lives and therefore tests annually whether intangible and tangible fixed assets have suffered any impairment. The recoverable amount of the CGU is based on the higher of value in use and the fair value less cost of disposal. Value in use is calculated from cash flow projections generally over five years using data from the Group's latest internal forecasts and extrapolated beyond five years using estimated long-term growth rates. Key assumptions and sensitivities for impairment are disclosed in note 18.

***Capitalisation and recoverability of internally-generated intangible assets***

Management considers both the capitalisation and the recoverability of its internally-generated intangible assets for development costs are sources of estimation uncertainty; balances are included in the balance sheet at 31 August 2020 at £8,124,000 (2019: £9,214,000). The amount capitalised in the year was £4,582,000 (2019: £3,822,000). Management applied estimates in their assessment of amounts capitalised in accordance with IAS 38 Intangible Assets, in particular around measuring reliably the expenditure incurred on projects during their development. A sensitivity analysis has not been performed over the estimates of the expenditure incurred as it would not provide a meaningful analysis. These projects continue to progress in a satisfactory manner, and customer reaction has reconfirmed management's previous estimates of anticipated revenues from the projects.

Management is confident that the carrying amount of the asset will be recovered in full. This situation will be closely monitored, and adjustments made in future periods if future market activity indicates that such adjustments are appropriate.

Key assumptions and sensitivities for impairment are disclosed in note 18.

***Valuing acquired intangible assets***

Since most acquired intangibles are not traded on an open market the absence of a market price means that the valuations are normally based on a discounted cash flow approach. This relies on setting customer attrition rates, growth rates, asset specific discount rates, useful economic life assumptions and an estimate of tax amortisation benefits arising from the recognition of these intangibles. In most circumstances the valuations are prepared by independent valuation firms with knowledge of the market in which the Group operates. Amounts recognised on acquisition totalled £22,700,000.

## 5 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 eight-month period between the acquisition and 31 August 2020 Martin Audio contributed revenue of £12,014,000 and a loss before tax of £254,000 to the Group. If the acquisition had occurred on 1 September 2019, management estimates that Martin Audio's revenue would have been £20,893,000 and profit before tax for the year would have been £946,000. 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 £1,737,000 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 fair values on acquisition**

| | £'000 |
|---|---|
| Brand | 6,800 |
| Patent designs | 11,300 |
| Patent designs in development | 4,600 |
| **Intangible assets** | 22,700 |
| Property, plant and equipment | 290 |
| Computer software | 224 |
| Cash | 4,345 |
| Inventories | 5,986 |
| Trade and other receivables | 3,783 |
| Deferred tax | (4,107) |
| Trade and other payables | (6,175) |
| Net identifiable assets and liabilities at fair value | 27,046 |
| Goodwill recognised on acquisition | 12,564 |
| 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 eight 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.

# Notes to the Financial Statements continued

For the year ended 31 August 2020

## 5 ACQUISITION OF A SUBSIDIARY CONTINUED

### 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;
- 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 £11,300,000 and patented design in development at £4,600,000.

| | Brand | | | Patent designs | | | Patent designs in development | | |
|---|---|---|---|---|---|---|---|---|---|
| | 19 years £'000 | **20 years £'000** | 21 years £'000 | 7 years £'000 | **8 years £'000** | 9 years £'000 | 10 years £'000 | **11 years £'000** | 12 years £'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 £'000 | **20 years £'000** | 21 years £'000 | 7 years £'000 | **8 years £'000** | 9 years £'000 | 10 years £'000 | **11 years £'000** | 12 years £'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.

## 6 REVENUE

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

| | **Year ended 31 August 2020** | | | | Year ended 31 August 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | **EMEA £'000** | **North America £'000** | **Rest of World £'000** | **Total £'000** | EMEA £'000 | North America £'000 | Rest of World £'000 | Total £'000 |
| Focusrite | **32,128** | **32,782** | **11,268** | **76,178** | 22,059 | 26,366 | 9,219 | 57,644 |
| Focusrite Pro | **1,071** | **1,625** | **796** | **3,492** | 1,316 | 2,537 | 851 | 4,704 |
| Focusrite combined | **33,199** | **34,407** | **12,064** | **79,670** | 23,375 | 28,903 | 10,070 | 62,348 |
| Novation | **8,290** | **7,013** | **4,080** | **19,383** | 7,096 | 6,684 | 3,939 | 17,719 |
| ADAM Audio | **8,784** | **6,352** | **2,245** | **17,381** | 714 | 758 | 278 | 1,750 |
| Martin Audio | **4,493** | **3,089** | **4,432** | **12,014** | – | – | – | – |
| Distribution | **1,693** | **–** | **–** | **1,693** | 2,848 | – | – | 2,848 |
| **Total** | **56,459** | **50,861** | **22,821** | **130,141** | 34,033 | 36,345 | 14,287 | 84,665 |

## 7 BUSINESS SEGMENTS

Information reported to the Board of Directors for the purposes of resource allocation and assessment of segment performance is focused on the main product groups which the Group sells. Similarly, the results of Novation and Ampify also meet the aggregation criteria set out in IFRS 8 Segmental Reporting. The Group's reportable segments under IFRS 8 are therefore as follows:

Focusrite – Sales of Focusrite branded products
Focusrite Pro – Sales of Focusrite Pro branded products
Novation – Sales of Novation or Ampify branded products
ADAM Audio – Sales of ADAM Audio branded products
Martin Audio – Sales of Martin Audio branded products
Distribution – Distribution of third-party brands including KRK, Stanton, Cerwin-Vega, and sE Electronics

**Segment revenues and results**
The following is an analysis of the Group's revenue and results by reportable segment:

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of the share of central administration costs including Directors' salaries, investment revenue and finance costs, and income tax expense. This is the measure reported to the Board of Directors 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 (note 31) of £537,000 for the year ended 31 August 2020 (2019: £348,000).

| | Year ended 31 August | |
|---|---|---|
| | **2020 £'000** | 2019 £'000 |
| **Revenue from external customers** | | |
| Focusrite | **76,178** | 57,644 |
| Focusrite Pro | **3,492** | 4,704 |
| Novation | **19,383** | 17,719 |
| ADAM Audio | **17,381** | 1,750 |
| Martin Audio | **12,014** | – |
| Distribution | **1,693** | 2,848 |
| **Total** | **130,141** | 84,665 |
| **Segment profit** | | |
| Focusrite | **35,602** | 28,785 |
| Focusrite Pro | **1,916** | 2,908 |
| Novation | **8,458** | 8,680 |
| ADAM Audio | **8,828** | 159 |
| Martin Audio | **5,032** | – |
| Distribution | **57** | 807 |
| | **59,893** | 41,339 |
| Central distribution costs and administrative expenses | **(39,871)** | (27,790) |
| Goodwill impairment | **(10,200)** | – |
| Non-underlying items (note 14) | **(1,888)** | (737) |
| Operating profit | **7,934** | 12,812 |
| Finance income | **36** | 246 |
| Finance costs | **(945)** | (45) |
| Profit before tax | **7,025** | 13,013 |
| Tax | **(2,934)** | (1,349) |
| Profit after tax | **4,091** | 11,664 |

# Notes to the Financial Statements continued

For the year ended 31 August 2020

## 7 BUSINESS SEGMENTS CONTINUED

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

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| **Non-current assets** | | |
| North America | **760** | 124 |
| Europe, Middle East and Africa | **49,611** | 24,900 |
| Rest of the World | **1,967** | 681 |
| **Total non-current assets** | **52,338** | 25,705 |

### Information about major customers

Included in revenues shown for 2020 is £35.4 million (2019: £33.4 million) attributed to the Group's largest customer, which is located in the USA. Amounts owed at the year end were £6.4 million (2019: £8.5 million).

## 8 PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging/(crediting):

| | | Year ended 31 August | |
|---|---|---|---|
| | Note | 2020 £'000 | 2019 £'000 |
| Net foreign exchange (gains)/losses | 10, 11 | **427** | (103) |
| R&D costs (excluding costs capitalised) | | **2,441** | 1,939 |
| Depreciation and impairment of property, plant and equipment | 20 | **1,777** | 714 |
| Profit on disposal of property, plant and equipment | | **–** | 3 |
| Amortisation of intangibles | 19 | **6,690** | 2,936 |
| Impairment of goodwill on acquisition | 18 | **10,200** | – |
| Operating lease rental expense | 25 | **–** | 466 |
| Cost of inventories recognised as an expense | | **61,419** | 41,805 |
| Staff costs (excluding share-based payments) | 12 | **17,737** | 10,339 |
| Movement in ECL | 23 | **474** | (40) |
| Share-based payments charged to profit and loss | 31 | **537** | 348 |

Due to the adoption of IFRS 16 Leases, there is no longer a charge to profit for operating lease rental. Instead a charge to profit is made for the depreciation of the right-of-use asset.

## 9 AUDITOR'S REMUNERATION

| | Year ended 31 August | |
|---|---|---|
| | 2020 £'000 | 2019 £'000 |
| Fees payable to the company's auditor for the audit of the company's annual accounts | **124** | 25 |
| Additional fee in respect of prior year audit | **60** | – |
| Fees payable to the company's auditor and its associates for other services | **–** | – |
| Audit of the accounts of subsidiaries pursuant to legislation | **182** | 142 |
| Total audit service | **366** | 167 |
| Audit-related assurance services (half year review) | **40** | 16 |
| Tax compliance services | **–** | – |
| Other assurance services | **–** | – |
| | **406** | 183 |

## 10 FINANCE INCOME

| | Year ended 31 August | |
|---|---|---|
| | **2020 £'000** | 2019 £'000 |
| Bank deposit interest | **36** | 143 |
| Exchange gain | **–** | 103 |
| | **36** | 246 |

## 11 FINANCE COSTS

| | Year ended 31 August | |
|---|---|---|
| | **2020 £'000** | 2019 £'000 |
| Bank charges | **449** | 45 |
| Charge on right-of-use assets | **69** | – |
| Exchange losses | **427** | – |
| | **945** | 45 |

Other financial expenses include bank charges arising on transactions executed and completed in the corresponding period and exchange movements on foreign currency cash balances.

## 12 STAFF COSTS

| | Year ended 31 August | |
|---|---|---|
| | **2020 £'000** | 2019 £'000 |
| Wages and salaries | **17,613** | 11,577 |
| Social security costs | **1,789** | 1,045 |
| Other pension costs | **851** | 577 |
| Share-based payments | **537** | 348 |
| | **20,790** | 13,547 |
| Less amounts capitalised within development costs | **(3,053)** | (2,860) |
| | **17,737** | 10,687 |

The average number of persons, including Executive Directors, employed by the Group during the year was as follows:

| | **2020 Number** | 2019 Number |
|---|---|---|
| R&D | **106** | 108 |
| Sales and marketing | **95** | 73 |
| Operations | **125** | 80 |
| Administration and central | **43** | 23 |
| | **369** | 284 |

## 13 DIRECTORS' REMUNERATION

A detailed analysis of Directors' remuneration, including salaries, bonuses and long-term incentives, and the highest paid Director, is provided in the audited remuneration table in the DRR, which forms part of this Annual Report and Accounts (page 60), and in note 3 of the Company financial statements (page 115).

# Notes to the Financial Statements continued

**For the year ended 31 August 2020**

## 14 NON-UNDERLYING ITEMS

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

| | Year ended 31 August 2020 £'000 | 2019 £'000 |
|---|---|---|
| Acquisition costs | **1,737** | 737 |
| Restructuring | **151** | – |
| **Non-underlying costs** | **1,888** | 737 |
| Amortisation of acquired intangible assets | **3,013** | – |
| Impairment of goodwill on acquisition | **10,200** | – |
| **Total non-underlying costs for adjusted EBITDA** | **15,101** | 737 |

Acquisition costs in the 12 months to 31 August 2020 included costs of £1,644,000 relating to Martin Audio. Restructuring costs relate to the costs of people changes following the ADAM Audio acquisition.

## 15 TAX

| | Year ended 31 August 2020 £'000 | 2019 £'000 |
|---|---|---|
| **Corporation tax charges:** | | |
| Under/(over) provision in prior year | **75** | (127) |
| Current year | **3,362** | 1,242 |
| | **3,437** | 1,115 |
| **Deferred taxation** | | |
| Current year | **(503)** | 234 |
| | **2,934** | 1,349 |

Corporation tax is calculated at 19% (2019: 19%) of the estimated taxable profit for the year. Taxation for the US and German subsidiaries are calculated at the rates prevailing in the respective jurisdiction.

The tax charge for each year can be reconciled to the profit per the income statement as follows:

| | Year ended 31 August 2020 £'000 | 2019 £'000 |
|---|---|---|
| **Current taxation** | | |
| Profit before tax on continuing operations | **7,025** | 13,013 |
| Tax at the UK corporation tax rate of 19% (2019: 19%) | **1,335** | 2,472 |
| Effects of: | | |
| Expenses not deductible for tax purposes | **2,582** | 133 |
| R&D tax credit | **(1,219)** | (1,093) |
| Prior period adjustment – current tax | **75** | (127) |
| Effect of change in standard rate of deferred tax | **–** | – |
| Overseas tax | **161** | (36) |
| Tax charge for the year | **2,934** | 1,349 |

Expenses not deductible relate to impairment costs, the costs of acquiring Martin Audio and residual costs of acquiring ADAM Audio.

The prior period adjustment arose as a result of an over-accrual of the tax provision. This was due to the changes in capital allowances not being fully incorporated into the prior year estimate.

**Tax credited directly to equity**

In addition to the amount charged to the income statement and other comprehensive income, the following amounts of tax have been recognised in equity:

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Share-based payment deferred tax deduction in excess of remuneration expense | **162** | (238) |
| Share-based payment current tax deduction in excess of remuneration expense | **457** | 310 |
| | **619** | 72 |

Currently for research and development tax credits, Martin Audio is under the RDEC scheme whereas all other members of the Group are under the SME scheme. Under the SME scheme the credit is treated as a taxable deduction within the corporation tax calculation. The whole Group will be moving to RDEC from the SME scheme for the next financial year.

The Finance Act 2020 enacted legislation to maintain the current rate of corporation tax at 19%, up until at least the end of tax year ended 31 March 2022.

## 16 DIVIDENDS

The following equity dividends have been declared:

| | Year to 31 August 2020 | Year to 31 August 2019 |
|---|---|---|
| Dividend per qualifying ordinary share | **4.2p** | 3.8p |

During the year, the company paid an interim dividend in respect of the year ended 31 August 2020 of 1.3 pence per share.

On 17 November 2020, the Directors recommended a final dividend of 2.9 pence per share (2019: 2.6 pence per share), making a total of 4.2 pence per share for the year (2019: 3.8 pence per share).

## 17 EARNINGS PER SHARE

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

| | Year ended 31 August | |
|---|---|---|
| | **2020 £'000** | 2019 £'000 |
| **Earnings** | | |
| Earnings for the purposes of basic and diluted EPS, being net profit for the period | **4,091** | 11,664 |
| Non-underlying items (note 14) | **15,101** | 737 |
| Tax on non-underlying items | **(26)** | – |
| Total underlying profit for adjusted EPS calculation | **19,166** | 12,401 |

| | Year ended 31 August | |
|---|---|---|
| | **2020 Number '000** | 2019 Number '000 |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purposes of basic EPS calculation | **57,680** | 57,221 |
| Effect of dilutive potential ordinary shares: | | |
| Share option plans | **812** | 824 |
| Weighted average number of ordinary shares for the purposes of diluted EPS calculation | **58,492** | 58,045 |

# Notes to the Financial Statements continued

**For the year ended 31 August 2020**

## 17 EARNINGS PER SHARE CONTINUED

| | 2020 Pence | 2019 Pence |
|---|---|---|
| **EPS** | | |
| Basic EPS | **7.1** | 20.4 |
| Diluted EPS | **7.0** | 20.1 |
| Adjusted basic EPS | **33.2** | 21.7 |
| Adjusted diluted EPS | **32.8** | 21.4 |

At 31 August 2020, the total number of ordinary shares issued and fully paid was 58,111,639. This included 359,483 (2019: 782,652) shares held by the 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 (431,920). 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.

## 18 GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE

| | Martin Audio £'000 | ADAM Audio £'000 | Novation Digital Music Systems £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 September 2018 | – | – | 419 | 419 |
| Additional goodwill recognised on business combinations | – | 4,852 | – | 4,852 |
| **At 31 August 2019** | – | 4,852 | 419 | 5,271 |
| Additional goodwill recognised on business combinations | 12,564 | 247 | – | 12,811 |
| **At 31 August 2020** | **12,564** | **5,099** | **419** | **18,082** |

The additional goodwill recognised in ADAM Audio was a fair value adjustment recognised within the twelve-month provisional period allowed.

An impairment of £10,200,000 has been recognised against the goodwill acquired on Martin Audio.

| | Martin Audio £'000 | ADAM Audio £'000 | Novation Digital Music Systems £'000s | Total £'000 |
|---|---|---|---|---|
| **Carrying amount** | | | | |
| At 1 September 2018 | – | – | 419 | 419 |
| Additional goodwill recognised on business combinations | – | 4,852 | – | 4,852 |
| **At 31 August 2019** | – | 4,852 | 419 | 5,271 |
| Additional goodwill recognised on business combinations | 12,564 | 247 | – | 12,811 |
| Loss on impairment | (10,200) | – | – | (10,200) |
| **At 31 August 2020** | **2,364** | **5,099** | **419** | **7,882** |

In note 19 'other intangible assets', there are £1,825,000 of development costs which have not started amortisation. These are projects in development and are considered to be intangible assets that have not yet started amortisation.

The goodwill shown in the table above and intangible assets with indefinite useful life are allocated to the CGUs per the schedule below:

| | Goodwill £'000 | Intangible assets with indefinite useful life £'000 |
|---|---|---|
| **CGUs** | | |
| Focusrite | 419 | 299 |
| Focusrite Pro | – | 688 |
| Novation | – | 838 |
| ADAM Audio | 5,099 | – |
| Martin Audio | 2,364 | – |
| **Total** | **7,882** | **1,825** |

**Key assumptions for assessment of impairment**

The discount rate applied against future cash flows has been calculated with reference to a WACC calculated by reference to an industry peer group relevant to each of the operating entities. Inputs include 20-year nominal risk-free rate and market risk premium.

The assumed growth rate for Martin Audio in the initial five-year period is 15.8% compound annual growth ('CAGR').

All CGU's have applied a perpetual 2% growth rate based on international monetary fund ('IMF') estimates of long-term inflation.

**Focusrite, Focusrite Pro and Novation**

An impairment assessment in relation to each of these CGUs was performed by management. The recoverable amounts of these CGUs have been determined based on the value in use method. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period, and a pre-tax discount rate of 13.1% (2019: 13.1%). Cash flows beyond that five-year period have been extrapolated using a perpetual 2% growth rate (FY19: 2%) based on IMF estimates of long-term inflation. These assumptions have been applied against Focusrite, Focusrite Pro and Novation CGUs.

Management believes that any reasonably possible change in the key assumptions on which these three CGUs' recoverable amounts are based would not cause the carrying amount to exceed their respective recoverable amounts. Also, it is noted that there is sufficient headroom for the Focusrite, Focusrite Pro and Novation CGUs.

**ADAM Audio**

The recoverable amount of ADAM Audio has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and a pre-tax discount rate of 13.8%. The discount rate applied in FY19 was 16.8%, the reduction in discount rate is due to updated assumptions based on technical and current market conditions, in particular, due to ADAM's strong performance since acquisition risk has reduced therefore the discount rate has reduced.

Cash flows beyond that five-year period have been extrapolated using a perpetual 2% growth rate (FY19: 2%) based on IMF estimates of long-term inflation. Management believes that any reasonably possible change in the key assumptions on which ADAM Audio's recoverable amount is based would not cause ADAM Audio's carrying amount to exceed its recoverable amount.

**Martin Audio**

The recoverable amount of Martin Audio has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and a pre-tax discount rate of 13.8%. The discount rate has been calculated with reference to a WACC calculated by reference to an industry peer group (including ADAM Audio). Inputs include 20-year nominal risk free rate and market risk premium. Any uncertainty risks are reflected within the base cash flows and not the discount rate.

Cash flows beyond that five-year period have been extrapolated using a perpetual 2% growth rate based on IMF estimates of long-term inflation. Based on these assumptions an impairment of £10.2 million has been identified an applied against goodwill held on the balance sheet against Martin Audio.

To the extent possible, cash flows incorporate the effects of COVID-19, though as these effects are considered to be constrained to the short and medium-term no adjustment has been made to discount rates or long-term growth rates. While the impact of COVID-19 is deemed to be restricted to the short/medium term, the initial valuation of Martin Audio was based on strong immediate growth within the first two to three years post acquisition. However, these forecasts have now been downgraded to represent a slower growth than first anticipated in the first three years, applied against a lower base year (as first-year revenues have been impacted by COVID-19). The growth forecast in years four to five is expected to be the same, however again applied against a lower base. This results in a reduction to forecast cash of £8.0 million from initial valuation. This subsequently affects the forecasted cashflows taken into perpetuity, although the perpetual growth rate applied remains the same at 2%.

# Notes to the Financial Statements continued

For the year ended 31 August 2020

## 18 GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE CONTINUED

The impact of changes in the primary assumptions in isolation is set out below for the CGU where detailed testing was carried out due to indicators of impairment.

| Change in estimate | (Increase)/decrease in impairment risk £m |
|---|---|
| Discount rate – increase of 2.2% | (5.0) |
| Discount rate – decrease of 1.8% | 5.8 |
| Five-year CAGR growth rate – increase of 1% | 2.4 |
| Five-year CAGR growth rate – decrease of 1% | (2.8) |
| Terminal growth rate – increase of 1% | 2.1 |
| Terminal growth rate – decrease of 1% | (1.8) |

## 19 OTHER INTANGIBLE ASSETS

| | Intellectual property £'000 | Internally generated development £'000 | Acquired development costs £'000 | Licences £'000 | Trademark £'000 | Computer software £'000 | Brands £'000 | Total £'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 | – | 442 | 4,043 | – | – | – | 7,500 | 11,985 |
| Disposals | (50) | (2,495) | – | – | – | – | – | (2,545) |
| At 31 August 2019 | 536 | 20,104 | 4,043 | 103 | 422 | 1,008 | 7,500 | 33,716 |
| Additions – products previously under development | 44 | – | – | 63 | 404 | 224 | – | 735 |
| Additions – products developed during the year | – | 2,698 | – | – | – | 81 | – | 2,779 |
| Additions – from development in progress | – | 1,884 | – | – | – | – | – | 1,884 |
| Additions through business combination | – | – | 15,900 | – | – | 224 | 6,800 | 22,924 |
| Disposals | – | (996) | – | – | – | (10) | – | (1,006) |
| **At 31 August 2020** | **580** | **23,690** | **19,943** | **166** | **826** | **1,527** | **14,300** | **61,032** |
| **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 31 August 2019 | 353 | 13,386 | 110 | 95 | 269 | 576 | 95 | 14,884 |
| Charge for the year | 167 | 3,026 | 2,042 | 27 | 195 | 260 | 973 | 6,690 |
| Eliminated on disposal | – | (906) | – | – | – | (10) | – | (916) |
| **At 31 August 2020** | **520** | **15,506** | **2,152** | **122** | **464** | **826** | **1,068** | **20,658** |
| **Carrying amount At 31 August 2020** | **60** | **8,184** | **17,791** | **44** | **362** | **701** | **13,232** | **40,374** |
| At 31 August 2019 | 183 | 6,718 | 3,933 | 8 | 153 | 432 | 7,405 | 18,832 |
| At 31 August 2018 | 287 | 4,641 | – | 1 | 172 | 519 | – | 5,620 |

In FY20, disposals include £996,000 of development costs previously capitalised but are no longer viable projects (FY19: £2,495,000).

## 20 PROPERTY, PLANT AND EQUIPMENT

| | Plant, tooling equipment and machinery £'000 | Right-of-use assets £'000 | Fixtures, fittings and leasehold improvements £'000 | Computer equipment £'000 | Customer demonstration units £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 September 2018 | 2,877 | – | 1,025 | 734 | 154 | 4,790 |
| Additions | 538 | – | 58 | 209 | 3 | 808 |
| Additions through business combination | 261 | – | – | – | – | 261 |
| Disposals | (1,405) | – | (28) | (2) | – | (1,435) |
| At 31 August 2019 | 2,271 | – | 1,055 | 941 | 157 | 4,424 |
| Additions | 824 | 2,840 | 33 | 261 | 8 | 3,964 |
| Additions through business combination | 207 | – | 43 | 36 | 8 | 294 |
| Disposals | (10) | – | – | (2) | (34) | (46) |
| **At 31 August 2020** | **3,292** | **2,840** | **1,131** | **1,236** | **139** | **8,636** |
| **Accumulated depreciation and impairment** | | | | | | |
| At 1 September 2018 | 2,277 | – | 620 | 498 | 120 | 3,515 |
| Charge for the year | 381 | – | 101 | 197 | 35 | 714 |
| Eliminated on disposals | (1,405) | – | – | (2) | – | (1,407) |
| At 31 August 2019 | 1,253 | – | 721 | 693 | 155 | 2,822 |
| Charge for the year | 346 | 1,080 | 98 | 250 | 5 | 1,777 |
| Eliminated on disposals | (10) | – | – | – | (35) | (45) |
| **At 31 August 2020** | **1,589** | **1,080** | **819** | **943** | **125** | **4,554** |
| **Carrying amount At 31 August 2020** | **1,703** | **1,760** | **312** | **293** | **14** | **4,082** |
| At 31 August 2019 | 1,018 | – | 334 | 248 | 2 | 1,602 |
| At 31 August 2018 | 600 | – | 405 | 236 | 34 | 1,275 |

# Notes to the Financial Statements continued

For the year ended 31 August 2020

## 21 SUBSIDIARIES

The Group's subsidiary undertakings for the period are listed below, including the name, country of incorporation, and proportion of ownership interest:

| Name | Country of registration or incorporation | Address | Principal activity | Class of shares | 2020 % | 2019 % |
|---|---|---|---|---|---|---|
| Focusrite Audio Engineering Limited | England and Wales | Windsor House, Turnpike Road, High Wycombe, Bucks HP12 3FX | Manufacture and distribution | Ordinary | **100** | 100 |
| Focusrite Novation Inc.[1] | USA | 909 N Pacific Coast Highway Suite 270, El Segundo, CA, 90245, USA | Marketing services | Ordinary | **100** | 100 |
| Focusrite Novation Asia Limited[1] | Hong Kong | 2316, 23/F Hong Kong Plaza, 181–191 Connaught Road West, Shek Tong Tsui, Hong Kong | Marketing services | Ordinary | **100** | 100 |
| Focusrite Australia PTY Limited[1,5] | Australia | Suite 5, Level 1, 796 High Street, Kew East, Victoria 3102, Australia | Marketing services | Ordinary | **100** | – |
| Pro Audio Beteiligungs GmbH | Germany | Grünstraße 13, Hugstetten, 79232 Germany | Holding company | Ordinary | **100** | 100 |
| ADAM Audio GmbH[2] | Germany | Rudower Chaussee 50, Berlin, 12489 Germany | Manufacture and distribution | Ordinary | **100** | 100 |
| ADAM Audio USA, Inc.[3] | USA | 514 E Iris Drive, Nashville, TN, 37204 | Marketing services and distribution | Ordinary | **100** | 100 |
| Dongguan ADAM Audio Business Service Co., Limited[3] | China | Room 505, Building 1(-3H Maker Center), No.552, Tangxia Avenue North, Tangxia Town, Dongguan, Guangdong | Operational services | Ordinary | **100** | 100 |
| Optimal Audio Group Limited | England and Wales | Unit 2 Century Point, Halifax Road, High Wycombe, Bucks HP12 3SL | Manufacture and distribution | Ordinary | **100** | – |
| Martin Audio Limited[4] | England and Wales | Unit 2 Century Point, Halifax Road, High Wycombe, Bucks HP12 3SL | Manufacture and distribution | Ordinary | **100** | – |
| Martin Audio US, LLC[4] | USA | Martin Audio US LLC 3108 Glendale Blvd., #669 Los Angeles, CA 90039 | Manufacture and distribution | Ordinary | **100** | – |

1 Owned indirectly through FAEL.
2 Owned indirectly through Pro Audio Beteiligungs GmbH.
3 Owned indirectly through ADAM Audio GmbH.
4 Owned indirectly through Optimal Audio Group Limited.
5 Registered on 4 August 2020. No transactions took place in FY20.

## 22 INVENTORIES

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Raw materials | **3,545** | 362 |
| Work in progress | **3,441** | – |
| Finished goods | **12,387** | 14,820 |
| | **19,373** | 15,182 |

Increase in inventories in current year mostly relates to the acquisition of Martin Audio, which resulted in acquired stock of £6,015,000 at acquisition date and £5,703,000 as at year end.

The stock value includes a provision of £3,303,000 (2019: £650,000), this increase being due to amounts provided by Martin Audio, not in the prior year comparative. This stock provision is for slow moving inventory, and raw material that are unlikely to be used in manufacturing within the next two years, and therefore is at higher risk of becoming obsolete. Of this provision, £nil was reversed and £nil was utilised during the year.

Stock charged to cost of sales during the year were £61,419,000 (2019: £41,811,000).

No inventories have been pledged as security against borrowings (2019: £nil). Stock days recorded against cost of goods sold amounted to 135 days in 2020 (2019: 133 days). The write-down of inventories to net realisable value amounted to £463,000 (2019: £100,000). The reversal of write-downs amounted to £nil (2019: £nil). The write-down and reversal are included in cost of sales.

## 23 TRADE AND OTHER RECEIVABLES

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Amount receivable for the sale of goods | **15,856** | 13,771 |
| ECL | **(483)** | (9) |
| | **15,373** | 13,762 |
| Other debtors | **375** | 3,613 |
| Prepayments | **981** | 813 |
| Other taxation recoverable | **1,015** | – |
| | **17,744** | 18,188 |

**Trade receivables**
Trade receivables disclosed above are classified as loans and receivables and are measured at amortised cost.

The average credit period offered on sales of goods during 2020 was 36 days (2019: 45 days). The days sales outstanding ('DSO') at 31 August 2020 was 42 days (2019: 57 days).

The Group has not charged interest for late payment of invoices in 2019 or 2020 but in certain cases the Group has withheld some of that customer's discount from the consumer price.

ECL is recognised on the total trade receivables based on estimated irrecoverable amounts by reference to past default experience. Specific counterparty risk is also considered where an analysis of the counterparty's current financial position indicates a change in credit risk.

Before accepting any significant new customer, the Group uses a variety of credit scoring systems to assess the potential customer's credit quality and to define credit limits for each customer. Limits and scoring attributed to customers are reviewed regularly. A single major distributor accounted for 40% of the total balance of trade receivables net of allowances for doubtful debts on 31 August 2020 (2019: 59%) and this is largely covered by credit insurance. No other single customer accounted for more than 10% of the total balance of trade receivables net of allowances for doubtful debts during the period under review.

Trade receivables disclosed above include amounts (see below for aged analysis) which are past due at the year end but against which the Group has not recognised an allowance for doubtful receivables. There has not been a significant change in credit quality and the amounts are still considered recoverable.

**Ageing of not impaired receivables**

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Not overdue | **14,344** | 12,169 |
| Overdue between 0–30 days | **868** | 1,123 |
| Overdue between 31–60 days | **54** | 435 |
| Overdue between 61–90 days | **10** | 35 |
| Overdue more than 90 days | **97** | – |
| | **15,373** | 13,762 |

# Notes to the Financial Statements continued

For the year ended 31 August 2020

## 23 TRADE AND OTHER RECEIVABLES CONTINUED

### Movement in the expected credit loss

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Balance at the beginning of the period | **9** | 49 |
| Movement in expected loss recognised | **67** | (40) |
| Assumed as part of business combination | **407** | – |
| Balance at the end of the period | **483** | 9 |

In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the relevant year end. Aside from the major customer mentioned above, the concentration of credit risk is limited due to the customer base being large and diverse in terms of industry sector. The Group maintains credit insurance to protect the debts of the major customers, including amounts in relation to its largest customer mentioned above. In addition, the Group maintains a close operational relationship with the key management of its largest customer, so as to monitor any changes in the level of credit risk associated with that business.

### Ageing of impaired trade receivables

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Overdue up to 30 days | **25** | – |
| Overdue between 31–60 days | **–** | – |
| Overdue between 61–90 days | **–** | – |
| Overdue between 91–120 days | **16** | – |
| Overdue more than 120 days | **442** | 9 |
| | **483** | 9 |

### Trade receivables net of expected credit loss

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Gross value of not impaired receivables | **15,373** | 13,762 |
| Gross value of impaired receivables | **483** | 9 |
| ECL | **(483)** | (9) |
| | **15,373** | 13,762 |

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

## 24 DEFERRED TAX

The following are the major deferred tax liabilities and assets recognised by the Group:

| | Intangible assets recognised on acquisition £'000 | Capitalised development costs £'000 | Share-based payments £'000 | Hedging instrument £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 September 2018 | – | 888 | (599) | 11 | 300 |
| Debit/(credit) to profit or loss | (61) | 348 | (53) | – | 234 |
| Debit/(credit) to other comprehensive income | – | – | – | (47) | (47) |
| Arising on business combinations | 3,463 | 96 | – | – | 3,559 |
| Credit to equity | – | – | 238 | – | 238 |
| At 31 August 2019 | 3,402 | 1,332 | (414) | (36) | 4,284 |
| **Debit/(credit) to profit or loss** | **(745)** | **310** | **(71)** | **–** | **(506)** |
| **Debit/(credit) to other comprehensive income** | **–** | **–** | **–** | **87** | **87** |
| **Arising on business combinations** | **4,313** | **(244)** | **–** | **–** | **4,069** |
| **Credit to equity** | **–** | **–** | **(162)** | **–** | **(162)** |
| **At 31 August 2020** | **6,970** | **1,398** | **(647)** | **51** | **7,772** |

The deferred tax liability arising on the business combination relates to temporary differences arising as a result of the fair valuation of the intangible assets at date of acquisition (see note 5 and note 19).

Deferred tax assets and liabilities are offset and relate to income taxes levied by the same taxation authority. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

| | **2020 £'000** | 2019 £'000 |
|---|---|---|
| Deferred tax liabilities | **8,016** | 4,734 |
| Deferred tax assets | **(244)** | (450) |
| | **7,772** | 4,284 |

## 25 LEASES

The Group has leases for its offices, warehouses and related facilities, plant and machinery and some vehicles. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet from 1 September 2019. The Group classifies its right-of-use assets within 'property, plant and equipment' (see note 20).

The leases for offices and warehouses range from three to five years in term, with the last leases due to expire in 2023. Lease payments are generally fixed and there is no option to purchase the buildings at the end of the term. For leases over office buildings and warehouses the Group must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease.

Right-of-use assets consist of the following leases:

| | **2020 £'000** | 2019 £'000 |
|---|---|---|
| Offices and warehouses | **1,743** | 2,260 |
| Vehicles | **17** | 18 |
| | **1,760** | 2,278 |

# Notes to the Financial Statements continued

For the year ended 31 August 2020

## 25 LEASES CONTINUED

Lease liabilities related to leases are split between current and non-current:

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Current | **1,018** | 669 |
| Non-current | **889** | 1,609 |
| | **1,907** | 2,278 |

When measuring the lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 1 September 2019. The weighted-average rate applied is 1.78%.

At the balance sheet date the Group had outstanding commitments for future minimum lease payments under non-cancellable leases, which fall due as follows:

| | Minimum lease payments | |
|---|---|---|
| | 2020 £'000 | 2019 £'000 |
| Within one year | **1,095** | 824 |
| In the second to fifth years inclusive | **1,209** | 1,976 |
| After five years | **–** | – |
| | **2,304** | 2,800 |

## 26 TRADE AND OTHER PAYABLES

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Trade payables | **13,415** | 8,953 |
| Accrued expenses | **9,616** | 6,151 |
| Other taxation and social security payable | **386** | 560 |
| | **23,417** | 15,664 |

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases was 74 days (2019: 67 days). No interest costs have been incurred in relation to trade payables. The Group policy is to ensure that payables are paid within the pre-agreed credit terms and to avoid incurring penalties and/or interest on late payments. Other creditors include sales taxes, property taxes, social security and employment taxes due to local tax authorities.

## 27 PROVISIONS

| | Warranty £'000 | Duty £'000 | Property £'000 | Total £'000 |
|---|---|---|---|---|
| At 1 September 2019 | 132 | – | – | 132 |
| Provisions made during the year | 11 | 747 | 500 | 1,258 |
| Acquired as part of a business combination | 204 | – | 1,019 | 1,223 |
| Provisions used during the year | – | – | – | – |
| **At 31 August 2020** | **347** | **747** | **1,519** | **2,613** |
| Current | 347 | 747 | – | 1,094 |
| Non-current | – | – | 1,519 | 1,519 |
| | **347** | **747** | **1,519** | **2,613** |

The Group provides warranty cover for its products for no additional charge in respect of manufacturing defects, which become apparent shortly after purchase. The Group offers warranties of up to five years and the estimated liability for product warranty is recognised when products are sold. No additional warranty services are provided to customers. These estimates are established using historical information on the nature, frequency and average cost of warranty claims and cost to repair.

The duty provision was established in FY20 to cover the retrospective correction of the duty paid prior to March 2020. See Note 35 for more detail.

Property provisions relate to the maximum potential costs to reinstate the Group's leased buildings to their condition at lease commencement as well as associated advisor's fees. The leases expire in more than one year and the Group has no current plans to leave the relevant buildings. The Group had no property provision in FY19.

## 28 SHARE CAPITAL

| | 2020 Number | 2019 Number |
|---|---|---|
| **Issued and fully paid** | | |
| Ordinary shares of £0.001 each | **58,111,639** | 58,111,639 |

| | 2020 £ | 2019 £ |
|---|---|---|
| **Issued and fully paid** | | |
| Ordinary shares of £0.001 each | **58,112** | 58,112 |
| | **58,112** | 58,112 |

## 29 OTHER RESERVES

### Share premium reserve

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Balance at 1 September | **115** | 115 |
| Issue of new shares | **–** | – |
| Balance at 31 August | **115** | 115 |

### Merger reserve

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Balance at 1 September | **14,595** | 14,595 |
| Balance at 31 August | **14,595** | 14,595 |

On 4 December 2014, Focusrite plc obtained control of 100% of the share capital of FAEL in a share for share exchange, thereby inserting Focusrite plc as the Parent Company of the Group. In accordance with the Companies Act 2006, the difference between the cost of the investment and the nominal value of the share capital acquired was put to the merger reserve.

### Merger difference reserve

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Balance at 1 September and 31 August | **(13,147)** | (13,147) |

Under IFRS 3, the equity structure should reflect the equity structure of the legal parent (plc) including the equity interests plc issued to the combination. The merger difference reserve is the difference between the sum of the plc share capital and merger reserve, and the sum of the FAEL share capital, share premium and capital redemption reserve.

There were no movements in the merger difference reserve in the period.

# Notes to the Financial Statements continued

For the year ended 31 August 2020

## 29 OTHER RESERVES CONTINUED

### EBT reserve

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Balance at 1 September | (1) | (1) |
| Shares exercised from EBT | – | – |
| Balance at 31 August | (1) | (1) |

The EBT reserve arose when the company issued equity share capital which it held in trust. The interests of this trust are consolidated into the Group's financial statements and the relevant amount treated as a reduction in equity. The shares held in the trust relate to share options granted, upon exercise of the share options this amount is reduced.

### Translation reserve

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Balance at 1 September | 92 | 50 |
| Exchange differences on translating the net assets of foreign operations | 105 | 42 |
| Balance at 31 August | 197 | 92 |

Exchange differences relating to the translation of the net assets and results of the Group's USA and Hong Kong subsidiaries from its functional currency into the Group presentational functional currency are recognised directly in the translation reserve.

### Hedging reserve

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Balance at 1 September | (152) | 46 |
| Gain/loss on forward foreign exchange contracts designated and effective as a hedging instrument | 459 | (245) |
| Tax on hedging instrument | (87) | 47 |
| Balance at 31 August | 220 | (152) |

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.

## 30 CASH AND CASH EQUIVALENTS

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Cash and bank balances per the balance sheet | 14,975 | 15,505 |
| Bank overdraft | – | (627) |
| Net cash per the cash flow statement | 14,975 | 14,878 |

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value.

## 31 SHARE-BASED PAYMENTS

### Equity-settled share option schemes

409,418 options over Focusrite plc's shares were exercised during the year ended 31 August 2020 (2019: 392,935). As at 31 August 2020, the total number of ordinary shares under option in Focusrite plc was 1,523,547 (2019: 1,713,198) of which 359,483 (2019: 782,652) can be satisfied by ordinary shares that are held in the EBT.

The remaining number of options would, if exercised, result in the issue of 1,164,064 (2019: 930,546) ordinary shares. The options held by the Directors are subject to performance-related vesting conditions.

The weighted average share price at the date of exercise for share options exercised during the year ended 31 August 2020 was £5.96 (2019: £4.42). For the share options outstanding at the year end, the weighted average remaining contractual life was 7.6 years (2019: 7.6 years).

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | **Number of options** | **Weighted average exercise price £** | Number of options | Weighted average exercise price £ |
| **Outstanding at start of period** | **1,713,198** | **2.15** | 1,969,114 | 1.62 |
| **Granted during the period:** | | | | |
| 2018 PSP: senior employees excluding Executive Directors | **66,708** | **0.00** | 58,746 | 0.00 |
| 2018 PSP: Executive Directors | **82,918** | **0.00** | 93,040 | 0.00 |
| 2018 LTIP | **168,400** | **6.44** | 13,993 | 3.73 |
| 2019 LTIP | **–** | **–** | 216,203 | 5.10 |
| **Exercised during the year:** | | | | |
| 2014 EMI Scheme: other employees | **(230,380)** | **1.05** | (237,357) | 0.15 |
| 2014 EMI Scheme: J Wilson | **(133,334)** | **0.15** | (80,345) | 0.15 |
| 2015 PSP: senior employees excluding Executive Directors | **(37,733)** | **0.00** | (75,233) | 0.00 |
| 2018 LTIP | **(7,971)** | **3.94** | – | – |
| **Cancelled during the period:** | | | | |
| 2014 EMI Scheme: other employees | **–** | **–** | (31,606) | 0.15 |
| 2014 EMI Scheme: J Wilson | **–** | **–** | (52,988) | 0.15 |
| 2015 EMI Scheme: other employees | **–** | **–** | (13,958) | 1.71 |
| 2015 PSP: senior employees excluding Executive Directors | **–** | **–** | (11,827) | 0.00 |
| 2018 LTIP | **(75,948)** | **3.94** | (117,386) | 3.94 |
| 2019 LTIP | **(22,311)** | **5.10** | (17,198) | 5.10 |
| **Outstanding at end of year** | **1,523,547** | **2.69** | 1,713,198 | 2.15 |
| **Exercisable at end of year** | **20,792** | **0.67** | 9,378 | 0.15 |

| | **2020 £'000** | 2019 £'000 |
|---|---|---|
| Expense arising from share-based payment transactions | **537** | 348 |

The estimated fair value of the share options was calculated by applying a Black-Scholes model. The model inputs were:

| Grant date | Share price at date of grant | Exercise price | Expected volatility | Dividend yield | Contractual life of option | Risk-free interest rate |
|---|---|---|---|---|---|---|
| 1 September 2014 | £1.74–£2.00 | £0.001 | 51.8% | 1.50% | 10 years | 1.93% |
| 18 September 2014 | £0.15 | £0.15 | 51.8% | 1.50% | 10 years | 0.56–1.93% |
| 1 December 2015 | £1.76 | £1.76 | 37.2–40.6% | 1.50% | 10 years | 1.46–1.59% |
| 24 November 2016 | £1.80 | £0.001 | n/a | 1.45% | 10 years | n/a |
| 22 November 2017 | £3.18 | £0.001 | n/a | 1.00% | 10 years | n/a |
| 12 March 2018 | £3.94 | £3.94 | 31.0% | 0.99% | 10 years | 1.24–1.34% |
| 13 March 2019 | £5.10 | £5.10 | 31.6% | 0.63% | 10 years | 0.97–1.04% |
| 17 February 2020 | £6.37 | £6.37 | 31.0% | 0.61% | 10 years | 0.5–0.53% |
| 18 June 2020 | £6.45 | £6.45 | 33.6% | 0.40% | 10 years | 0.03–0.08% |

# Notes to the Financial Statements continued

For the year ended 31 August 2020

## 32 RETIREMENT BENEFIT SCHEME

The Group operates a number of defined contribution pension plans which are open to all employees.

Other than amounts that are deducted from employees' remuneration and accrued pending payment to the pension fund, no further obligations fall on the Group as the assets of these arrangements are held and managed by third parties entirely separate from the Group.

The pension charge for the period represents contributions payable to the fund and amounted to £846,000 for the year ended 31 August 2020 (2019: £577,000). Contributions totalling £79,000 (2019: £214,000) were payable to the fund at the balance sheet date and are included in trade and other payables.

## 33 FINANCIAL INSTRUMENTS

### Capital risk management

The Group manages its capital to maximise future profitable growth and thereby the return on investment for shareholders. The Group's overall strategy has evolved in the last five years in response to organic growth opportunities.

The capital structure of the Group consists of cash and cash equivalents, and equity attributable to equity holders of the Parent Company, comprising issued capital, reserves and retained earnings as disclosed in notes 28 and 29.

The Group is not subject to any externally imposed capital requirements. Equity includes all capital and reserves of the Group that are managed as capital.

### Categories of financial instruments

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| **Financial assets** | | |
| **Amortised cost** | | |
| Cash and cash equivalents | **14,975** | 15,505 |
| Trade and other receivables | **15,353** | 16,181 |
| **Designated cash flow hedge relationships** | | |
| Derivative financial assets designated and effective as cash flow hedging instruments | **271** | – |
| | **30,599** | 31,686 |
| **Financial liabilities** | | |
| **Designated cash flow hedge relationships** | | |
| Derivative financial liabilities designated and effective as cash flow hedging instruments | **–** | 188 |
| **Amortised cost** | | |
| Trade and other payables | **14,137** | 8,953 |
| Bank loan (revolving credit facility) and overdraft | **11,641** | 627 |
| | **25,778** | 9,768 |

Financial assets and liabilities are measured at amortised cost which is a reasonable approximation of fair value.

### Financial risk management objectives

The Group's finance function is responsible for all aspects of corporate treasury. It coordinates access to financial markets, monitors and manages the financial risks relating to the operations of the Group through internal reports which analyse exposures by degree and magnitude. The risks reviewed include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group seeks to minimise the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide guidance to the finance function in addressing all risks, including foreign exchange risk, credit risk and the appropriate use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Group's bankers are party to a debenture which provides for security over the whole of the company's assets and undertakings. This debenture is in place to support the revolving credit facility, provision of forward contracts and a duty deferment facility.

## Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Group enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk. Currently the exposure to short-term foreign exchange rate risks is mitigated through the purchase of forward foreign exchange contracts to hedge the exchange rate risk arising on trading with overseas customers.

## Foreign currency risk management

The Group undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters, utilising forward foreign exchange contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the relevant period end dates are as follows:

| | Liabilities | | Assets | |
|---|---|---|---|---|
| | **2020 £'000** | 2019 £'000 | **2020 £'000** | 2019 £'000 |
| USD | **6,641** | 3,667 | **16,921** | 12,677 |
| Euro | **343** | 187 | **7,985** | 3,656 |
| HKD | **67** | 51 | **166** | 119 |
| GBP | **18,725** | 5,863 | **5,527** | 15,234 |
| | **25,778** | 9,768 | **30,599** | 31,686 |

## Foreign currency sensitivity analysis

The Group is mainly exposed to the Euro and USD.

The following table details the Group's sensitivity to a 10% increase and decrease in GBP against the relevant foreign currencies.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The table indicates the increase in profit and equity resulting from a 10% strengthening of the foreign currency, and the corresponding decrease in profit and equity resulting from a 10% weakening of the foreign currency.

| | Euro impact[1] | | USD impact[2] | |
|---|---|---|---|---|
| | **2020 £'000** | 2019 £'000 | **2020 £'000** | 2019 £'000 |
| Profit or loss | **764** | 347 | **1,028** | 901 |

1 This is mainly attributable to the exposure outstanding on Euro net payables and receivables at the balance sheet date.

2 This is mainly attributable to the exposure to USD net payables and receivables at the balance sheet date.

## Forward foreign exchange contracts

It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts during the following financial year with the aim that approximately 75% of the Euro foreign exchange exposure is covered. In addition, approximately 50% of the Euro foreign exchange exposure is covered for the year after that. Basis adjustments are made to the carrying amounts of non-financial hedged items when the anticipated sale or purchase transaction takes place.

For the current and prior year, all forward foreign exchange contracts have been hedge accounted. For cash flow hedges the following table sets out the periods when the cash flows are expected to occur and when they are expected to affect profit or loss:

| | **2020** | | | | |
|---|---|---|---|---|---|
| | **Carrying amount £'000** | **Expected cash flow £'000** | **Within 1 year £'000** | **Between 1 and 5 years £'000** | **Over 5 years £'000** |
| ***Forward exchange contracts*** | | | | | |
| Assets | **271** | **271** | **271** | **–** | **–** |
| **Total** | **271** | **271** | **271** | **–** | **–** |

# **Notes to the Financial Statements** continued

For the year ended 31 August 2020

## 33 FINANCIAL INSTRUMENTS CONTINUED

| | 2019 | | | | |
|---|---|---|---|---|---|
| | Carrying amount £'000 | Expected cash flow £'000 | Within 1 year £'000 | Between 1 and 5 years £'000 | Over 5 years £'000 |
| *Forward exchange contracts* | | | | | |
| Liabilities | (188) | (188) | (188) | – | – |
| Total | (188) | (188) | (188) | – | – |

### Credit risk management
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has a well-established system of credit limits and credit insurance, typically covering around 80% of the Group's trade receivables.

The carrying amount recorded for financial assets in the consolidated financial information is net of impairment losses and represents the Group's maximum exposure to credit risk. No guarantees have been given in respect to third parties.

### Liquidity risk management
Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. To counter this risk, the Group operates with a high level of cash and has a RCF in place. In addition, it benefits from strong cash flow from its normal trading activities.

The following table details the Group's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

| Financial assets | Less than 1 month £'000 | 1 to 3 months £'000 | 3 months to 1 year £'000 | 1 to 5 years £'000 | 5+ years £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **2020** | | | | | | |
| **Non-interest-bearing** | **14,975** | **–** | **–** | **–** | **–** | **14,975** |
| | **14,975** | **–** | **–** | **–** | **–** | **14,975** |
| 2019 | | | | | | |
| Non-interest-bearing | 15,505 | – | – | – | – | 15,505 |
| | 15,505 | – | – | – | – | 15,505 |

| Financial liabilities | Less than 1 month £'000 | 1 to 3 months £'000 | 3 months to 1 year £'000 | 1 to 5 years £'000 | 5+ years £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **2020** | | | | | | |
| **Non-interest-bearing** | **–** | **–** | **–** | **11,641** | **–** | **11,641** |
| | **–** | **–** | **–** | **11,641** | **–** | **11,641** |
| 2019 | | | | | | |
| Non-interest-bearing | – | – | – | – | – | – |
| | – | – | – | – | – | – |

The maturity of non-derivative financial liabilities, comprising trade payables and other creditors, is less than three months for both of the financial period ends.

The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the relevant year ends presented above.

On 19 December 2019, Focusrite plc took out a £40,000,000 revolving credit facility with HSBC UK and NatWest, for a period of five years. Under this agreement, Focusrite plc may draw down funds on demand, at an interest rate of 1.25%-1.90% +LIBOR on utilised funds and 0.4% + LIBOR on unutilised funds.

**Fair value of financial instruments**
***Fair value of financial instruments carried at amortised cost***
The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

**Valuation techniques and assumptions applied for the purposes of measuring fair value**
The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models 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 contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

**Fair value measurements recognised in the statement of financial position**
Under IAS 39, all derivative financial instruments not in a hedge relationship are classified as derivatives at fair value through the income statement. The Group does not use derivatives for speculative purposes. All transactions in derivative financial instruments are underpinned by firm orders from customers or to suppliers or where there is a high degree of certainty that orders will be received.

## 34 CONTINGENT LIABILITIES
In the opinion of the Directors, the company and its subsidiaries are not involved currently in any legal proceedings which, at 31 August 2020 and for the period up to the date of approval of these financial statements, have had a significant effect on the financial position or profitability of the company and its subsidiaries.

## 35 CONTINGENT ASSETS
In early 2020, Focusrite became aware that the US import duty code on Scarlett interfaces was different from that used by its competitors for their interfaces. The effect was that the competitors were paying far less import duty than Focusrite. A legal opinion was obtained from a US lawyer that the code used by the competitors was valid. Therefore, the new code was used from that point on and this has been accepted by the US authorities.

The effect of using the new code is that there needs to be a retrospective correction for the duty paid prior to March 2020. The net effect of this retrospective correction is an expected rebate of c.a.$2.5 million. However, this is a net of a payment of $1.0 million and a rebate of $3.5 million. The payment of $1.0 million has been provided for in these financial statements on account of this payment being probable.

The rebate of $3.5 million will only be received when the USA authorities have reviewed all of the retrospective paperwork submitted to confirm the change of code for that product for the last four years. Therefore, it will be treated as a contingent asset until confirmation has been received from the USA authorities.

# Notes to the Financial Statements continued

For the year ended 31 August 2020

## 36 RELATED PARTY TRANSACTIONS

Balances and transactions between the Parent Company and its subsidiary, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and other related parties are disclosed below.

### Remuneration of key management personnel

The key management personnel are the operational Directors of the Group and the remuneration that they have received during the year while employed as an operational Director is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures.

| | **2020 £'000** | 2019 £'000 |
|---|---|---|
| Short-term employee benefits | **1,838** | 2,808 |
| Share-based payments | **296** | 214 |
| Pension contributions | **79** | 73 |
| | **2,213** | 3,095 |
| Aggregate emoluments of the highest paid Director | **537** | 479 |

Note that in FY20 the make-up of the key management personnel was changed to reflect the new Group structure upon acquisition of Martin Audio. More details on the members of the Board can be found on page 42.

### Transactions involving Directors and key management personnel

During the year, the company continued a commercial lease agreement in Lincoln Road, High Wycombe. Mr P Dudderidge, a Director and shareholder of the company, is the landlord of the property in Lincoln Road, High Wycombe. The annual rental is £19,750 (2019: £19,750) and is considered to be at arm's length.

# Company Balance Sheet

For the year ended 31 August 2020

| | Note | 2020 £'000 | 2019 £'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Investment in subsidiaries | 6 | **44,250** | 29,912 |
| **Total fixed assets** | | **44,250** | 29,912 |
| **Current assets** | | | |
| Trade and other receivables | 7 | **21,792** | 4,090 |
| Cash at bank and in hand | | **504** | 2,126 |
| **Total current assets** | | **22,296** | 6,216 |
| **Creditors: amounts falling due within one year** | | | |
| Creditors | 8 | **(23,426)** | (1,149) |
| **Net current assets** | | **(1,130)** | 5,067 |
| **Total assets less current liabilities** | | **43,120** | 34,979 |
| **Creditors: amounts falling due later than one year** | | | |
| Bank loan | 9 | **(11,641)** | – |
| **Net assets** | | **31,479** | 34,979 |
| **Capital and reserves** | | | |
| Share capital | 10 | **58** | 58 |
| Share premium | | **115** | 115 |
| Merger reserve | 11 | **14,595** | 14,595 |
| EBT reserve | 12 | **(1)** | (1) |
| Retained earnings | 13 | **16,712** | 20,212 |
| **Total equity and shareholders' funds** | | **31,479** | 34,979 |

The financial statements were approved by the Board of Directors and authorised for issue on 17 November 2020. They were signed on its behalf by:

**Jeremy Wilson**
**Chief Financial Officer**

Registered number 9312676
The accompanying notes on pages 113 to 118 form part of these financial statements.

# Company Statement of Changes in Equity

For the year ended 31 August 2020

| | Share capital £'000 | Share premium £'000 | Merger reserve £'000 | EBT reserve £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Balance at 31 August 2018 | 58 | 115 | 14,595 | (1) | 15,410 | 30,177 |
| Profit/(loss) for the period | – | – | – | – | 6,238 | 6,238 |
| Dividends | – | – | – | – | (2,005) | (2,005) |
| Premium on shares issued in lieu of bonuses | – | – | – | – | 175 | 175 |
| Share-based payment charge | – | – | – | – | 348 | 348 |
| Shares from EBT exercised | – | – | – | – | 46 | 46 |
| Balance at 31 August 2019 | 58 | 115 | 14,595 | (1) | 20,212 | 34,979 |
| **Profit/(loss) for the period** | **–** | **–** | **–** | **–** | **(2,017)** | **(2,017)** |
| **Dividends** | **–** | **–** | **–** | **–** | **(2,251)** | **(2,251)** |
| **Premium on shares issued in lieu of bonuses** | **–** | **–** | **–** | **–** | **(21)** | **(21)** |
| **Share-based payment charge** | **–** | **–** | **–** | **–** | **537** | **537** |
| **Shares from EBT exercised** | **–** | **–** | **–** | **–** | **252** | **252** |
| **Balance at 31 August 2020** | **58** | **115** | **14,595** | **(1)** | **16,712** | **31,479** |

The accompanying notes on pages 113 to 118 form part of these financial statements.

# Notes to the Company Accounts

For the year ended 31 August 2020



## 1 AUTHORISATION OF FINANCIAL STATEMENTS AND STATEMENT OF COMPLIANCE WITH FRS 101

The Parent Company financial statements of Focusrite plc for the year ended 31 August 2020 were authorised for issue by the Board of Directors on 17 November 2020 and the balance sheet was signed on the Board's behalf by Tim Carroll and Jeremy Wilson.

Focusrite plc is a public limited company incorporated and domiciled in England and Wales. The company's ordinary shares are traded on AIM. These financial statements were prepared in accordance with FRS 101.

No profit and loss account is presented by the company as permitted by section 408 of the Companies Act 2006.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the period ended 31 August 2020.

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of preparation**

These financial statements were prepared in accordance with FRS 101.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ('Adopted IFRS') but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- disclosures in respect of transactions with wholly-owned subsidiaries;
- disclosures in respect of capital management;
- the effects of new but not yet effective IFRS; and
- disclosures in respect of the compensation of key management personnel.

Under section 408 of the Companies Act 2006, the company is exempt from the requirement to present its own profit and loss account.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 August 2020.

**Going concern**

The Company's business activities and position in the market are described in the Strategic Report. The Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertainties within the global economy. The Group has considerable financial resources, recurring revenue streams and a broad spread of customers (see note 3 of the Group financial statements for more detail of the going concern assessment). As a consequence of these factors and having reviewed the forecasts for the coming year, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a minimum of the twelve month period the forecasts cover. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements. Further detail is contained in the Strategic Report on pages 1 to 41.

**Investments in subsidiaries**

Investments in subsidiaries are stated at cost less any provision for impairment. This is detailed in more depth in the Group accounting policies Note 2.

**Cash**

Cash and short-term deposits in the balance sheet comprise cash at banks and in hand, and short-term deposits with an original maturity of three months or less.

# Notes to the Company Accounts continued

For the year ended 31 August 2020

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### Income taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities, and their carrying amounts in the financial statements, with the following exception:

- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date. The carrying amount of deferred income tax assets is reviewed at each balance sheet date.

Deferred income tax assets and liabilities are offset only if a legally enforced right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the company to make a single net payment.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the income statement.

### Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

### Equity-settled share-based payments

The company issues equity-settled payments to certain employees (including Directors). All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

Share options are valued at the date of grant using the Black-Scholes option pricing model for options with non-market vesting conditions attached and a simulation model for options with market vesting conditions attached, and are charged to operating profit over the vesting period of the award with a corresponding credit to the 'Other reserves'.

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options the proceeds received net of attributable transaction costs are credited to share capital and, where appropriate, share premium account.

The share option charge related to the grant by the company of options over its equity instruments to the employees of subsidiary undertakings is subsequently recharged to the relevant employing subsidiary.

## 3 DIRECTORS' REMUNERATION

### Directors' emoluments

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Salaries, bonuses and other employee benefits | **1,499** | 1,122 |
| Social security costs | **166** | 160 |
| Pension costs | **65** | 52 |
| | **1,730** | 1,334 |

During the year, retirement benefits were accruing to two Directors (2019: two) in respect of defined contribution pension schemes. The highest paid Director received remuneration (excluding the value of vested share options) of £541,000 (2019: £479,000).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid Director amounted to £nil (2019: £nil). During the year, 133,334 share options were exercised by Directors (2019: 80,345), resulting in a gain of £833,000 (2019: £349,000).

The Directors' remuneration for the year:

| | | Salary/fees £'000 | Other taxable benefits £'000 | Annual bonus £'000 | Pension contribution £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | |
| Tim Carroll[1] | FY19 | 224 | 8 | 209 | 24 | 465 |
| | **FY20** | **285** | **6** | **342** | **34** | **667** |
| Jeremy Wilson[2] | FY19 | 179 | 2 | 185 | 23 | 389 |
| | **FY20** | **215** | **2** | **215** | **28** | **460** |
| Phil Dudderidge | FY19 | 178 | 5 | – | – | 183 |
| | **FY20** | **182** | **5** | **–** | **–** | **187** |
| **Non-executive Directors** | | | | | | |
| David Bezem[3] | FY19 | 40 | – | – | – | 40 |
| | **FY20** | **41** | **–** | **–** | **–** | **41** |
| Paul Dean[3] | FY19 | 40 | – | – | – | 40 |
| | **FY20** | **41** | **–** | **–** | **–** | **41** |
| Naomi Climer[4] | FY19 | 35 | – | – | – | 35 |
| | **FY20** | **36** | **–** | **–** | **–** | **36** |

1 The bonus for Tim Carroll comprises £228,000 paid in cash (FY19: £142,036), £57,000 taken as shares (FY19: £33,555) and £57,000 in the form of matching shares (FY19: £33,555). The pension contribution was taken as additional taxed income net of the appropriate percentage of employer's National Insurance which would not otherwise have fallen due, and Tim Carroll elected to use £2,629 (FY19: £4,858) of this in respect of the costs of leasing a car.
2 The bonus for Jeremy Wilson comprises £215,000 paid in cash (FY19: £95,594), £nil taken as shares (FY19: £44,675) and £nil in the form of matching shares (FY19: £44,675). The pension contribution was taken as additional taxed income net of the appropriate percentage of employer's National Insurance which would not otherwise have fallen due.
3 The remuneration for both David Bezem and Paul Dean comprises a basic fee of £35,700 per annum for their roles as Non-executive Directors of the Group and an additional £5,000 per annum for their roles as Chairs of Board Committees.
4 Naomi Climer's basic fee for her role as Non-executive Director of the Group was £35,700.

# Notes to the Company Accounts continued

For the year ended 31 August 2020

## 4 STAFF COSTS

Staff costs, including Directors' remuneration, were as follows:

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Wages and salaries | **1,561** | 1,259 |
| Social security costs | **171** | 166 |
| Other pension costs | **66** | 55 |
| | **1,798** | 1,480 |

The average monthly number of employees, including the Directors, during the year was as follows:

| | 2020 Number | 2019 Number |
|---|---|---|
| Management and administration | **7** | 7 |

## 5 DIVIDENDS

The following equity dividends have been declared:

| | 2020 | 2019 |
|---|---|---|
| Dividend per qualifying ordinary share | **4.2p** | 3.8p |

## 6 INVESTMENTS IN SUBSIDIARIES

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| At 1 September | **29,912** | 14,647 |
| Acquired as business combination (ADAM Audio) | **(262)** | 15,265 |
| Acquired as business combination (Martin Audio) | **24,800** | – |
| Impairment on investment (Martin Audio) | **(10,200)** | – |
| At 31 August | **44,250** | 29,912 |

On acquisition, a loan was made to Martin Audio of £14.8 million in order for them to repay loans outstanding to their previous owners (see note 7). Therefore, the total consideration paid for Martin Audio was £39.6 million.

The investments in subsidiaries comprise:

| Name | Country of registration or incorporation | Principal activity | Class of shares | 2020 % | 2019 % |
|---|---|---|---|---|---|
| Focusrite Audio Engineering Limited | England and Wales | Manufacture and distribution | Ordinary | **100** | 100 |
| Focusrite Novation Inc.[1] | USA | Marketing services | Ordinary | **100** | 100 |
| Focusrite Novation Asia Limited[1] | Hong Kong | Marketing services | Ordinary | **100** | 100 |
| Focusrite Australia PTY Limited[1,5] | Australia | Marketing services | Ordinary | **100** | – |
| Pro Audio Beteiligungs GmbH | Germany | Holding company | Ordinary | **100** | 100 |
| ADAM Audio GmbH[2] | Germany | Manufacture and distribution | Ordinary | **100** | 100 |
| ADAM Audio USA, Inc.[3] | USA | Marketing services and distribution | Ordinary | **100** | 100 |
| Dongguan ADAM Audio Business Service Co., Limited[3] | China | Operational services | Ordinary | **100** | 100 |
| Optimal Audio Group Limited | England and Wales | Manufacture and distribution | Ordinary | **100** | – |
| Martin Audio Limited[4] | England and Wales | Manufacture and distribution | Ordinary | **100** | – |
| Martin Audio US, LLC[4] | USA | Manufacture and distribution | Ordinary | **100** | – |

1 Owned indirectly through FAEL.

2 Owned indirectly through Pro Audio Beteiligungs GmbH.

3 Owned indirectly through ADAM Audio GmbH.

4 Owned indirectly through Optimal Audio Group Limited.

5 Registered on 4 August 2020. No transactions took place in FY20.

## 7 TRADE AND OTHER RECEIVABLES

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Other debtors | **506** | 198 |
| Prepayments | **23** | 39 |
| Amounts owed by Group undertakings | **21,263** | 3,853 |
| | **21,792** | 4,090 |

The amounts owed by Group undertakings are repayable on demand. These amounts include loans made to ADAM Audio and Martin Audio totalling £3,000,000 (2019: nil). These loans have been made on an arm's length basis and interest is payable at a rate of 4%.

### Debtors due in more than one year

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Amounts owed by Group undertakings | **13,359** | – |
| | **13,359** | – |

The amounts owed by Group undertakings are repayable on demand, however management do not expect repayment within one year. These amounts include loans made to ADAM Audio and Martin Audio totalling £13,359,000 (2019: nil). These loans have been made on an arm's length basis and interest is payable at a rate of 4%.

## 8 CREDITORS

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Other creditors | **1,789** | 1,149 |
| Amounts due to Group undertakings | **21,637** | – |
| | **23,426** | 1,149 |

The amounts owed to Group undertakings are repayable on demand.

## 9 BANK LOAN

On 19 December 2019, Focusrite plc took out a £40,000,000 revolving credit facility with HSBC UK and NatWest, for a period of five years. Under this agreement, Focusrite plc may draw down funds on demand, at an interest rate of 1.25%-1.90% + LIBOR on utilised funds and 0.4% + LIBOR on unutilised funds.

## 10 SHARE CAPITAL

| | 2020 Number | 2019 Number |
|---|---|---|
| **Issued and fully paid** | | |
| Ordinary shares of £0.001 each | **58,111,639** | 58,111,639 |

| | 2020 £ | 2019 £ |
|---|---|---|
| **Issued and fully paid:** | | |
| Ordinary shares of £0.001 each | **58,112** | 58,112 |
| | **58,112** | 58,112 |

The company has one class of ordinary shares which carries no right to fixed income.

# Notes to the Company Accounts continued

For the year ended 31 August 2020

## 11 MERGER RESERVE

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| At 1 September and 31 August | **14,595** | 14,595 |

The merger reserve represents the difference between the cost of the investment in FAEL (and its subsidiary, Focusrite Novation Inc.) of £14,647,000 and the nominal value of the ordinary shares issued in exchange of £52,000.

## 12 EBT RESERVE

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| At 1 September | **(1)** | (1) |
| Shares exercised from EBT | **–** | – |
| At 31 August | **(1)** | (1) |

## 13 RETAINED EARNINGS

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| At 1 September | **20,212** | 15,410 |
| Net profit for the period | **(2,017)** | 6,238 |
| Dividend | **(2,251)** | (2,005) |
| Premium on shares issued in lieu of bonuses | **(21)** | 175 |
| Share-based payment charge | **537** | 348 |
| Shares from EBT exercised | **252** | 46 |
| At 31 August | **16,712** | 20,212 |

The Company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The Parent Company's loss for the year was £2,017,000 (2019: £6,238,000 profit), which includes £10,200,000 of impairment on the cost of investment in Martin Audio.

# Advisers

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