

Focusrite plc
 (“the Company” or “the Group”)
Final Results for the Year Ended 31 August 2019

Focusrite plc (AIM: TUNE), the global music and audio products company, announces Final Results for the year ended 31 August 2019.

Key financial measures

	FY19	FY18
Revenue (£ million)	84.7	75.1
EBITDA ² (£ million)	17.2	15.5
Adjusted ³ operating profit (£ million)	13.5	11.6
Adjusted ³ diluted earnings per share (p)	21.4	17.6
Total dividend per share (p)	3.8	3.3
Net cash (£ million)	14.9	22.8
Statutory results		
Operating profit (£ million)	12.8	11.9
Basic earnings per share (p)	20.4	18.4

Highlights

- Acquisition of ADAM Audio completed in July 2019 for €18.0 million from existing cash resources
- Group revenue grew by 12.7% (constant currency¹: 7.8%) to £84.7 million (FY18: £75.1 million)
- All major geographic regions grew: North America was up by 11.1%; Europe, Middle East and Africa by 14.6%; and the Rest of World by 12.5%
- Focusrite revenue up by 21.5% driven by the Scarlett 3rd Generation range
- Novation revenue down by 11.7% as Launchpad 2nd Generation reached the end of its lifecycle.
- EBITDA² grew by 11.1% to £17.2 million (FY18: £15.5 million)
- Adjusted³ operating profit grew 16.7% to £13.5 million (FY18: £11.6 million)
- Adjusted³ diluted earnings per share grew 21.6% to 21.4p (FY18: 17.6p)
- Final dividend of 2.6p recommended, resulting in 3.8p for the year, up 15.2% on prior year
- Year-end net cash balance of £14.9 million after the purchase of ADAM Audio for £16.2 million (FY18: £22.8 million)

1 Constant currency revenue growth is calculated by taking the sterling value of FY19 revenue, converting to FY18 annual average exchange rates and comparing with the reported revenue for FY18. In addition, all foreign exchange movements disclosed in revenue are excluded from both years.

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

3 Adjusted for non-underlying items.

Commenting on the results Tim Carroll CEO, said:

“I am very proud to present another set of positive results, following an extremely busy year for the Group, with both top line revenue and profit growing and the successful completion of our first major acquisition. We have remained focused on executing our growth strategy whilst ensuring the Group was taking the correct and necessary measures to mitigate any potential disruption from the numerous macro-economic issues at hand.

“This positive performance has been driven by a number of factors. Most notably new product introductions this year, including our third generation of Scarlett audio interfaces, which have resonated well with customers and provided an incremental lift. We are also witnessing positive results from many of our IT-based initiatives that were implemented and funded over the past few years. These include enhanced websites, modernised social media demand generation, localised online experiences and new technologies focused on simplifying the ‘out of box’

experience. All of these have resulted in increased customer and sales channel satisfaction illustrated by our top net promoter scores ('NPS') for individual products."

Commenting on outlook he added:

"Since the year end, ADAM Audio has continued to grow ahead of both prior year and our initial expectations. Within the Focusrite and Novation businesses, first quarter revenue is likely to be lower than the same period last year. However, this is not unexpected: revenue in the first quarter of last year benefited from the initial effect of the price increases in the US, introduced as a consequence of US tariffs, and revenue in the first quarter of this year has been impacted by the increased strength of GBP.

There is much change in the trading environment, causing risk but also providing many opportunities. Changes in technology and new customer requirements can emerge quickly; macroeconomic and political factors affect our end customers and distributors alike and competitive pressures remain. We have shown over the course of this past year that we are capable of navigating these risk factors, reacting in a methodical and measured way and ultimately protecting our revenue and gross margin; all the while staying focused on the execution of our growth strategy. I am very pleased with our FY19 results, as a continuation of our impressive and consistent growth story. We look forward to another productive year with many new products and solutions coming to fruition."

Commenting on the acquisition of ADAM Audio, Executive Chairman Phil Dudderidge said:

"In July 2019 we made our first major acquisition since the IPO acquiring the Berlin-based ADAM Audio brand of monitor loudspeakers, used by the very same kind of purchaser of Focusrite and Novation products. With a twenty-year history of recording studio use by professional recording engineers and producers the brand has a well-deserved global reputation for quality. Recent years have seen the product range extended to meet the affordability-with-quality criteria sought by the wider market (similarly addressed by the Focusrite Scarlett interface range), while maintaining its market share with professional products at higher price points. Notably this profitable acquisition was achieved from cash generated since the IPO.

On that note, the Group continues to be highly cash generative, with net cash of £14.9 million at the year end, after the acquisition of ADAM Audio. Our business successes are predicated on the commitment, dedication and hard work of over 300 people around the world and I would like to thank them and our commercial partners for their continued support."

Availability of Annual Report and Notice of AGM

The Annual Report and Accounts for the financial year ended 31 August 2019 and notice of the Annual General Meeting ("AGM") of Focusrite will be posted to shareholders by 28 November 2019 and will be available on Focusrite's website at www.focusriteplc.com.

Dividend timetable

The final dividend is subject to shareholder approval, which is being sought at Focusrite's Annual General Meeting to be held on 20 December 2019.

The timetable for the final dividend is as follows:

20 December 2019	AGM to approve the recommended final dividend
9 January 2020	Ex-dividend Date
10 January 2020	Record Date
31 January 2020	Dividend payment date

- ends -

Enquiries:

Focusrite plc:

Tim Carroll (CEO) +44 1494 836301

Jeremy Wilson (CFO) +44 1494 836301

Panmure Gordon (Nominated Adviser and Broker)

Freddy Crossley (Corporate Finance) +44 20 7886 2500

Erik Anderson (Corporate Broking) +44 20 7886 2500

Belvedere Communications

John West +44 20 3687 2753

Llew Angus +44 20 3687 2754

This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No 596/2014 (MAR)

Notes to Editors

Focusrite plc is a global music and audio products group that develops and markets proprietary hardware and software products. Used by audio professionals and amateur musicians alike, its solutions facilitate the high-quality production of recorded and live sound. The Focusrite Group trades under four established and rapidly growing brands: Focusrite, Focusrite Pro, Novation and Ampify and ADAM Audio.

With a high-quality reputation and a rich heritage spanning decades, its brands are category leaders in the music-making industry. Focusrite and Focusrite Pro offer audio interfaces and other products for recording musicians, producers and professional audio facilities. Novation and Ampify products are used in the creation of electronic music, from synthesisers and groove boxes to industry-shaping controllers and inspirational music-making apps. ADAM Audio monitors have earned a worldwide reputation based on technological innovation in the field of loudspeaker technology. The product portfolio includes its T, AX, and S Series product ranges, aimed at different levels of musicians and recording engineers, as well as its subwoofer and headphone ranges.

The Focusrite Group has a global customer base with a distribution network covering approximately 160 territories. Focusrite is headquartered in High Wycombe, UK, with marketing offices in Los Angeles and Hong Kong. ADAM Audio has offices in Berlin, Nashville and Dongguan. Focusrite plc is traded on the AIM market, London Stock Exchange.

Chairman's Statement

I am very pleased to introduce the 2019 Final Results of Focusrite plc for the year ended 31 August 2019 in what has once again been a record year for the Company.

The Focusrite Group was established in 1989 and has become a global leader in recording hardware technology. Under the Focusrite brand, and working with Avid Pro Tools and Ableton Live recording software brands, we have gone from strength to strength. Since the acquisition of Novation in 2004, the Group has also grown to become a leading brand in the electronic music creation world.

Focusrite plc was admitted to the AIM market in December 2014 and at that time we envisaged not only continued organic growth but also growth through acquisition of businesses that would bring established technical competence, brand recognition and market share in product categories adjacent to those of the Focusrite and Novation brands.

Patience was rewarded in July 2019 with the acquisition of the Berlin-based ADAM Audio brand of monitor loudspeakers, used by the very same kind of purchaser of Focusrite and Novation products. With a twenty-year history of recording studio use by professional recording engineers and producers the brand has a well-deserved global reputation for quality. Recent years have seen the product range extended to meet the affordability-with-quality criteria sought by the wider market (similarly addressed by the Focusrite Scarlett interface range), while maintaining its market share with professional products at higher price points. Notably this profitable acquisition was achieved from cash generated since the IPO.

On that note, the Group continues to be highly cash generative, with net cash of £14.9 million at the year end, after the acquisition of ADAM Audio.

Our business successes are predicated on the commitment of over 300 people around the world. In addition to the usual head office administrative activities, the 183 UK-based employees are focused on product development, customer support, sales and marketing. Our subsidiary, Focusrite Novation Inc. based in Los Angeles, supports the US market with marketing, customer support and retail channel communications. Similarly, other regional representatives in Germany, Hong Kong and Mexico (for Latin America) support their local regions with sales management, marketing and customer support.

Once again I would like to take this opportunity to acknowledge all our employees for their commitment and skills, each of whom makes an essential contribution to our success. Permanent employees are participants in a share option scheme. This has proved rewarding and incentivising for employees who are motivated to see the Group prosper for the benefit of all shareholders, themselves included.

The Focusrite plc Board aspires to high standards of corporate governance and I would like to take this opportunity to thank our Non-Executive Directors for their wise guidance and counsel and for ensuring that the Company meets or exceeds its regulatory obligations as a quoted company. I would also like to thank our CEO, Tim Carroll, and CFO, Jeremy Wilson, for their outstanding leadership and commitment to the success of the business.

Finally, I would also like to acknowledge our excellent commercial partners. We have three principal suppliers that manufacture our products to the highest standards of quality and reliability; our logistics partners that reliably handle physical distribution from factory to local distribution warehouses and onwards to our customers; and our third-party distributors who market our products in their own national territories.

We look forward to the coming years with enthusiasm for our industry, our customers, our employees, our partners around the world, and with an appreciation of our shareholders who invest in our vision of constant innovation and growth, as we continue 'Enriching Lives Through Music'.

Phil Dudderidge

Founder and Executive Chairman

Chief Executive's Statement

Introduction:

I am very proud to present another set of positive results, following an extremely busy year for the Group, with both top line revenue and profit growing during FY19 and the successful completion of our first major acquisition since the IPO.

During FY19, we remained focused on executing our growth strategy whilst ensuring the Group was taking the correct and necessary measures to mitigate any potential disruption from the numerous macro-economic issues at hand. We also delivered on another core part of our strategy, which is to continue investing in our people, tools and processes to ensure that our roadmap pipeline remains robust; our infrastructure is prepared for future business opportunities and our collective actions stay tightly aligned to our mission, vision and purpose.

Our employee base is now over 300 strong and we continue to grow and strengthen our talent in all divisions of the business across our multiple offices, which includes locations in High Wycombe, London, Berlin, Los Angeles, Hong Kong, Mexico and Nashville. We are fortunate to have so many employees globally that have a real passion for music and audio; many being musicians, audio engineers, or DJs using our products in real world environments every week. It continues to be a great pleasure and privilege to help guide and lead them and I thank them for their hard work and dedication.

Our operations

The Group's products are sold in approximately 160 territories and countries all over the world. We utilise an effective mix of retailers – online and 'bricks and mortar' locations, distributors in select areas and direct business to consumer sales via our own e-commerce store and in-app software purchases.

Last year we sold over 800,000 physical products to end-users and our music creation apps were downloaded over 1.2 million times during the year, with over 840,000 in-app customer transactions. Our manufacturing partners are located in South China and Malaysia and we use a variety of third-party logistics support.

Our market

Audio production continues to be an attractive market for technology companies like the Focusrite Group. Our products and solutions are key components for many personal and professional audio recording customers and musicians. Our technologies are designed to break down barriers to creativity, versus being impediments to the process. Alongside that, we continually strive to make audio production technology easier to use and more accessible to a larger addressable market.

While we lead the market in many product categories, we always seek ways to grow our core business while exploiting opportunities to expand into adjacent product categories that would make commercial and strategic sense for the business. The Group is pursuing these opportunities with organic development as well as by acquisition.

We constantly update our research on the audio production market: looking for new trends in music and audio production, exploring changes in customer behaviours and pain points, evolving delivery formats and emerging and adjacent technologies. Additionally, we continuously update our customer personas.

We have identified 'The New Creator', a customer who might have little or no music or audio recording knowledge; the 'Passionate Maker', someone who may or may not play a traditional instrument but wants to make 'good' music or content; the 'Serious Aspiring Producer', for whom music and audio is more than just a hobby; and the 'Master' and 'Facility' personas - highly skilled musicians, audio engineers, or business entities focused on audio production.

Operating review of another record year

Whilst executing on our growth strategy, we are conscious that we must continue to manage our cost base carefully and remain focused on cash generation. In this regard we had a successful year. Revenue for the Group grew by 12.7% and within this, ADAM Audio, our first major acquisition since the IPO, contributed approximately £1.8 million in the six weeks since acquisition. The remainder of the Group, excluding ADAM Audio, had revenue of £82.9 million, growing by 10.4% (5.6% at constant exchange rates) from £75.1 million in FY18. EBITDA increased 11.1% over the FY18 result.

This positive performance has been driven by a number of factors. Most notably this year new product introductions, including our third generation of Scarlett audio interfaces, which have resonated well with customers and provided an incremental increase in revenue. We are also witnessing positive results from many of our investments in IT infrastructure that were implemented over the past few years. These include enhanced websites, modernised social media demand generation, localised online experiences and new technologies focused on simplifying the 'out of box' experience. All of these have resulted in increased customer and sales channel satisfaction illustrated by our top net promoter scores ('NPS') for individual products.

Throughout this year we have witnessed several events, namely ongoing Brexit negotiations and the imposition of US tariffs, that require accommodating to ensure the business is well prepared to mitigate any possible associated effects. We have spent considerable time weighing options and taking actions to protect the profitability of the business. We are confident that we are well prepared for these events and further comment is included in the section on Principal Risks and Uncertainties.

The purchase of ADAM Audio

In July, we were very proud to announce our first major acquisition for the Group since the IPO, Berlin-based ADAM Audio for a total consideration of €18.0 million (£16.2 million), funded in its entirety by cash. ADAM Audio is a leading developer and global distributor of professional studio monitor loudspeaker products, which are well-aligned to our existing customer base. The business is growing and profitable and early indicators are that it is a good fit. We welcome the ADAM Audio team and look forward to them being a part of the Group.

Our criteria for acquisition candidates remains very specific. We are looking for companies with products and solutions that strategically fit into our growth strategy, with brand equity that is recognised and respected globally, strong financials and with a corporate culture that is similar to that of Focusrite. ADAM Audio had all of these characteristics and looks set to be a powerful new division for the Group.

We continue to explore other similar opportunities that would allow us to execute further on expanding our business as defined by our stated growth strategy.

Segmental Review

Focusrite

Within the Focusrite business, which consists of our award-winning Scarlett™ and Clarett™ lines of audio interfaces, revenue increased by 21.5%. These interfaces are used by a wide range of customers for numerous audio applications including music creation, spoken word mediums such as podcasting, and for streaming audio in real time environments such as gaming. The customer base runs from the first time buyer/hobbyist to the aspiring professional content creator.

Within the financial year, we introduced our third generation of Scarlett interfaces, which included enhanced hardware and software features that have received numerous accolades from our reseller and end user communities. Additionally, the new generation of Scarlett products bring to market a much improved 'out of box' experience that makes the overall initial set-up and journey towards making music for the first time much more fluid and easy. Scarlett remains the leading audio interface in the sub \$500 global market.

The Clarett range continues to set new price/performance standards in our mid-range interface offerings. Created for both the aspiring and professional recordist, Clarett has disrupted the market with a price to performance mix that is unparalleled in the industry. Clarett comes bundled with a different set of software IP to match the specific customer personas for whom it is intended, winning several distinguished industry awards this past year including best overall audio interface in 'Sound on Sound', a leading industry magazine and online publication.

Focusrite Pro

The Focusrite Pro division represents a product portfolio consisting of three Focusrite ranges: RedNet™, Red™ and ISA™. RedNet employs 'audio over IP' technology that allows end users and facilities to deploy audio across great distances and with a wide range of scale with high quality resolution. This technology and the full range of RedNet products continues to be adopted in the post-production, education, installed sound and broadcast markets. Red, our professional line of individual audio interfaces, is a range of products that allows connectivity across multiple formats. ISA, which includes analogue mic preamps and analogue audio processing, is based on our legacy Focusrite console signal path. For this fiscal year, the Focusrite Pro segment revenue declined by 1.2%. Within this, RedNet grew 4% year over year while both Red and ISA declined as they are mainly comprised of older products that are nearing the end of their product lifecycle.

Novation

The Novation business is all about the creation and production of electronic music. Electronic music and its many genres continue to democratise the art of music and Novation offers solutions across a wide spectrum of software and hardware. The portfolio has solutions for beginners all the way through to professionals. Several of our core products in the Novation portfolio were approaching the end of their lifecycle in FY19 and, as a result, the entire category was, as expected, down 11.7% year over year.

Launchpad™, our grid-based controller for both creating and performing electronic music continues to be a powerful and widely accepted creation and performance tool. Two of the three products that make up the current range were at the end of their lifecycle and have subsequently been replaced in the period since the year end. We continue to refine the feature set, including software and overall user journey and 'out of box' experience, to ensure Launchpad is well adapted to cater to our professional customers as well as new users.

Our Launchkey™ family of keyboard controllers grew year-on-year by 13%. With an intuitive feature-set and extensive, integrated control features with top music-making software such as Ableton Live, Launchkey delivers a differentiated features set that appeals to many music makers and performers.

Our family of professional synthesisers complete the Novation family of products. Synthesisers have been core to the Novation brand since inception and have developed a reputation as cutting-edge instruments that bring a unique palette of sounds and colour to an artist's production. At the very end of the year, we introduced a new flagship synthesiser, Summit, built on the core technology from our FY18 release of Peak™. Summit™ just began shipping in small quantities at the very end of our fiscal year and demand and feedback from the community is very positive.

Ampify

Ampify develops powerful yet brilliantly simple music creation tools for new creators. Requiring no more than an iOS device, our apps allow anyone to create amazing music tracks in a wide variety of styles. Our apps consistently rank in the top ten for music creation tools on Apple's app store and are currently included on some products displayed in Apple stores worldwide. We are extremely proud that our apps have now been downloaded over 10.5 million times and this is an indication of the strength not only of our software products but the size of the market opportunity.

We are investing substantially in Ampify, as we aim to grow the Group's own software capability and 'leverage' software to further our ability to enable creative workflows for users at all levels. We look to introduce our first cross platform music creation platform in the first half of this year.

ADAM Audio

The Group bought Pro Audio Beteiligungs GmbH on 16 July 2019. This comprised ADAM Audio GmbH in Germany and ADAM Audio North America Inc in US. In the 2018 calendar year, the business had revenue of €12.9 million leading to an adjusted EBITDA of €1.7 million and reported operating profit of €1.0 million. In the period between the acquisition and 31 August 2019, ADAM Audio generated revenue of £1.8 million and EBITDA of £0.2 million, which are included in these financial results.

ADAM Audio fits in with our strategy and our acquisition criteria very well and we are delighted to have completed this acquisition. In particular, we are enjoying working with the team at ADAM and we have high hopes moving forward.

Distribution

Focusrite continues to distribute some third party products in the UK. These products are sold to the same reseller channel as our own branded products and are closely associated with our core markets.

Geographic overview

I am pleased to report that our success this year was global and sales in all our major regions grew. North America finished with a 11.1% rise in revenue when compared with last year. Europe, Middle East and Africa experienced 14.6% growth. Rest of World finished the year with 12.5% year-on-year growth.

North America

The US market, which accounts for approximately 43% of total Group revenue, grew by 11.1%. In this past year, we have responded to the ongoing US-China tariff dispute with a combination of actions. On our products impacted by the tariffs, we have raised prices to protect our profits. Overall, we saw no real impact on demand for our Focusrite and Focusrite Pro products, but some impact on Novation products. Furthermore, we have moved US production for our Scarlett range to a new facility in Malaysia. We continue to invest in our US demand generation and customer support team, and now have an office in Nashville, Tennessee for ADAM Audio.

Europe, Middle East and Africa ('EMEA')

EMEA, which represents approximately 40% of Group revenue, also had a successful year growing by 14.6%. Including the UK and mainland Europe, the region comprises direct resellers, distributors and our own e-store. We consistently refine our 'go to market' approach and look for the right balance of both direct reseller and distribution routes across the region.

Rest of the World

The Rest of the World region comprises 17% of Group revenue and grew by 12.5% over the prior year. Within this, Asia Pacific had a good year with 10% growth. We continue to invest in people for the region and our Hong Kong office is now fully functional and integrated with our Company systems, including local and 'follow the sun' customer support.

Latin America remains a region of significant interest to us and we believe it has substantial growth potential. We are enthusiastic about our future business and, despite a number of economic problems in several key regions, continue to pursue our plan of more localised experiences, in country field personnel and a more direct contact with the user base. Our two key hires from last year have settled in well and have made progress in navigating the many issues Latin America faced this past year.

Growth drivers

Innovation continues to be a major focus for us and a key driver of growth. We continue to spend 6-7% of revenue on R&D to provide a constant stream of new products as well as updates and new options for existing products.

During the year we launched ten new hardware products and numerous software/firmware updates to expand and enhance our product offerings. All of these releases were focused on specific customer personas and tightly aligned with our growth strategy. Some releases were next generation versions of existing products, such as the Scarlett 3rd Generation, while others, such as Summit, were entirely new products. In every instance, special focus was put on improving the 'out of box' experience to ensure our customers get up and running quickly with minimal technical burden. Feedback from the consumer, retailer and distribution channels continue to be positive and acceptance so far has been very pleasing. As for Scarlett, which already had exceptional, industry leading net promoter scores (NPS), we have managed to raise our average NPS another seven percentage points to 74 percent.

Additionally, we expanded the Group's portfolio by adding ADAM Audio to our family of products. As previously mentioned, ADAM Audio creates top quality, high resolution monitors for critical listening and monitoring of audio: a perfect complement to our existing portfolio. We continue to seek out other high quality acquisition opportunities.

Summary and Outlook

We are focused on three core goals: growing our customer base; increasing the lifetime value for our customers; and expanding into new market segments. To achieve this, we will continue to innovate, disrupt and grow our audience. We will also continue to remove barriers from the creative process of music creation and audio recording for all our customers, from beginners to professionals. With our first acquisition successfully closed, we look to pursue new opportunities to expand our business both organically and through further acquisitions.

Since the year end, ADAM Audio has continued to grow ahead of both prior year and our initial expectations. Within the Focusrite and Novation businesses, first quarter revenue is likely to be lower than the same period last year. However, this is not unexpected: revenue in the first quarter of last year benefited from the initial effect of the price increases in the US, introduced as a consequence of US tariffs, and revenue in the first quarter of this year has been impacted by the increased strength of GBP.

There is much change in the trading environment, causing risk but also providing many opportunities. Changes in technology and new customer requirements can emerge quickly; macroeconomic and political factors affect our end customers and distributors alike and competitive pressures remain. We have shown over the course of this past year that we are capable of navigating these risk factors, reacting in a methodical and measured way and ultimately protecting our revenue and gross margin; all the while staying focused on the execution of our growth strategy. I am very pleased with our FY19 results, as a continuation of our impressive and consistent growth story. We look forward to another productive year with many new products and solutions coming to fruition.

Tim Carroll
Chief Executive Officer

Financial Review

Overview

The Group had another successful year, delivering growth of 12.7% in revenue, 11.1% in EBITDA and 11.0% in diluted earnings per share ('EPS').

Income statement

Revenue

Revenue for the Group grew 12.7% to £84.7 million. Within this, ADAM Audio contributed £1.8 million between the acquisition on 16 July 2019 and the year end on 31 August 2019. The remainder of the Group had revenue of £82.9 million, growing by 10.4% (5.6% at constant exchange rates) from £75.1 million in FY18.

The Focusrite segment comprises the products used in the recording and broadcasting of music. Focusrite supports all groups of people who want to record music. The primary ranges are Scarlett and Clarett. In this segment, revenue increased by 21.5% to £57.6 million, driven primarily by strong 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. The primary ranges are Red and RedNet. In FY19, revenue decreased by 1.2% to £4.7 million as products reached the latter part of their lifecycle.

Novation, including Ampify, support all musicians wishing to create music with technology, with products ranging from free apps to highly sophisticated synthesisers. The primary ranges are Launchpad, Launchkey, Circuit and the Peak and Summit synthesisers. As discussed at the half year, Novation had a challenging year as the current generations of Launchpad and Launchkey products reached the end of their lives, before being replaced after the end of the financial year by the third generation of each range. Overall, revenue declined during the year by 11.7%.

ADAM Audio, which was acquired towards the end of our financial year, makes studio monitors of the type used by many of the Group's customers. Revenue in the six weeks that ADAM was part of the Focusrite group was £1.8 million.

The Group has long distributed products made by other manufacturers, recognising that the Group's sales and marketing organisation built up over many years represents a high quality route to market for other manufacturers. Revenue was similar to FY18 at £2.8 million.

Once again, all the major regions grew. North America represents 43% of the Group's revenue and grew at 11.1% (constant currency: 4.8%) to £36.4 million. North America in particular took to the new Scarlett range which fuelled the revenue growth in that region. In addition, the US distributor bought some extra stock in July and August to help ensure supply of the new ranges and to help protect against the effects of rising US import tariffs.

EMEA represents 40% of Group revenue. EMEA grew by 14.6% (constant currency: 12.4%) to £34.0 million with growth in UK, Germany and the rest of EMEA.

The Rest of the World ('ROW') comprises mainly Asia and South America and represents the remaining 17% of Group revenue. Revenue in ROW grew by 12.5% (constant currency: 5.0%). Within this segment, South America has experienced volatility as different countries have suffered wider economic problems so the Group is pleased to have generated modest growth in this continent.

Exchange rates have been broadly stable this year. The Euro average exchange rate has stayed at approximately €1.13 in both FY18 and FY19. The USD has strengthened from \$1.35 in FY18 to \$1.29 in FY19. This improves revenue but has little effect on gross profit because the majority of the cost of sales are also charged in USD. More detail on this and our hedging strategy is given later.

Segment profit

Segment profit is disclosed in more detail in the note to the accounts named, 'Business Segments'. In FY18, the segments consisted of Focusrite, Novation and Distribution. For FY19, Focusrite has been split into Focusrite and Focusrite Pro, in accordance with IFRS 15, and the Group acquired ADAM Audio. There are no other significant changes. The revenue is compared with the directly attributable costs to create a segment profit.

The segment profit for Focusrite was £28.8 million (2018: £22.2 million). This increased by 29.4% over the prior year as the latest generation of the Scarlett product range was welcomed by consumers. Focusrite Pro grew marginally to £2.9 million in FY19. Similarly, Novation weakened from £10.1 million to £8.7 million. The Distribution segment was broadly level at £0.8 million. Finally, ADAM Audio generated segment profit of £0.2 million in its first six weeks as part of the Group.

Gross profit

In FY18, the gross margin was 42.2%. In the first half of FY19, the gross margin grew to 44.3% as the Group reacted to the imposition of increased import tariffs into the US by raising prices to protect the margins. As discussed in the Interim Results, there was an enhanced gross profit in that period as the Group gained increased revenue on products imported prior to the new tariffs. Since then the import tariffs have been increased successively without further significant selling price increases in the US, leading to a gross margin in the second half of 40.3% and therefore a full year gross margin of 42.2%, which is equal to that achieved in FY18.

The Board continues to investigate ways in which it can manage and mitigate costs as well as charge an appropriate price for its world leading products.

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 £23.0 million, up from £19.7 million last year. Within this, FY19 included £0.7 million of non-underlying costs relating to the acquisition of ADAM Audio and FY18 included a non-underlying reduction of cost due to a recalculation of the start dates for the amortisation of individual development projects. Adjusting for both of these items, the increase was 10.7%. Once again, the major growth was in sales and marketing; development engineering; and finally central office costs as the Group matured. In this regard we hired a Head of People, because the welfare of our people is hugely important, and Head of Business Development to hunt for suitable acquisition targets and manage these transactions, alongside our advisers.

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 of some of the incentivisation of senior management within the Group. The other major metric used for the incentivisation of management is cash generation and this is discussed later. EBITDA increased from £15.5 million in FY18 to £17.2 million in FY19, an increase of 11.1% (see table below).

Depreciation and amortisation

Depreciation is charged on tangible fixed assets on a straight-line basis over the assets' estimated useful lives, normally ranging between two and five years.

Amortisation is mainly charged on capitalised development costs, writing off the development cost over the life of the resultant product. It has always been intended that the costs are capitalised prudently and amortised sensibly, with all development costs related to an individual product written off over a period up to three years for Focusrite and Novation and up to eight years for ADAM Audio reflecting the different lifespans of the products. During FY19, the R&D teams spent much time developing the latest generations of the Scarlett, Launchkey and Launchpad ranges. Scarlett was announced to the public in July 2019 and both the Launchkey and Launchpad ranges were announced after the end of the financial year, thereby increasing the previously capitalised development costs. Therefore the capitalised R&D costs of £3.8 million (FY18: £3.0 million) were meaningfully greater than the amortisation of £2.2 million (FY18: £2.4 million).

Non-underlying items

In FY19, the Group bought ADAM Audio and the costs associated with the acquisition were £0.7 million. In FY18 the Group changed its amortisation of capitalised development costs from a standard amortisation timing covering all projects to a project-by-project basis. This change resulted in a single adjustment to reduce the amortisation previously charged by £0.3m and was shown as a non-underlying item in FY18.

Income statement

	2019 £m Adjusted	2019 £m Non- underlying	2019 £m Reported	2018 £m Adjusted	2018 £m Non- underlying	2018 £m Reported
Revenue	84.7	-	84.7	75.1	-	75.1
Cost of sales	(48.9)	-	(48.9)	(43.4)	-	(43.4)
Gross profit	35.8	-	35.8	31.7	-	31.7
Administrative expenses	(22.3)	(0.7)	(23.0)	(20.1)	0.3	(19.8)
Operating profit	13.5	(0.7)	12.8	11.6	0.3	11.9
Net finance income	0.2	-	0.2	(0.2)	-	(0.2)
Profit before tax	13.7	(0.7)	13.0	11.4	0.3	11.7
Income tax expense	(1.3)	-	(1.3)	(1.2)	(0.0)	(1.2)
Profit for the period	12.4	(0.7)	11.7	10.2	0.3	10.5

	2019 £m Adjusted	2019 £m Non- underlying	2019 £m Reported	2018 £m Adjusted	2018 £m Non- underlying	2018 £m Reported
Operating profit	13.5	(0.7)	12.8	11.6	0.3	11.9
Add – amortisation of intangible assets	2.9	-	2.9	3.1	(0.3)	2.8
Add – depreciation of tangible assets	0.8	-	0.8	0.8	-	0.8
EBITDA	17.2	(0.7)	16.5	15.5	-	15.5

Foreign exchange and hedging

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

Exchange rates	2019	2018
Average		
USD:GBP	1.29	1.35
EUR:GBP	1.13	1.13
Year end		
USD:GBP	1.22	1.30
EUR:GBP	1.11	1.12

The average USD rate has strengthened from \$1.35 to \$1.29. The USD accounts for over 50% of Group revenue so this increases the revenue growth. That said, the Group also buys the Focusrite and Novation product from its suppliers in USD and has some USD operating costs so there is a highly effective natural hedge. Therefore, the USD strengthening increases revenue but does not materially change gross profit.

The Euro comprises approximately a quarter of revenue but little cost so the Group enters into forward contracts to convert Euro to GBP. The policy adopted by the Group is to hedge 75% of the Euro flows for the current financial year (year ending August 2020) and 50% of the Euro flows for the following financial year (FY21). In FY18, approximately three-quarters of Euro flows were hedged at €1.12, and the average transaction rate was €1.13, thereby creating a blended exchange rate of approximately €1.12. In FY19, the equivalent hedging contracts were at €1.10, again close to the transactional rate of €1.13 and so creating a blended exchange rate of €1.11.

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.

The major part of the balance within financing costs was the cumulative foreign exchange gain on the translation of cash held in USD.

Corporation tax

The effective corporation tax rate as a proportion of profit before tax was 10.4% (FY18: 10.3%). Most of the Group's profits are taxed in the UK, where the headline rate is 19%. The effective tax rate is lower than this headline rate, due largely to enhanced tax relief on development costs. In addition, the effective tax rate is higher than the prior year due partly to greater overseas profits in higher tax countries and partly due to lower deductions, as proportion of profit, for share options and development costs.

Earnings per share

The basic EPS for the year was 20.4 pence, up 10.9% from 18.4 pence in FY18. This rise has been driven by the profit increase, but it also includes the impacts of the non-underlying items in FY18 and FY19. The more comparable measure, excluding non-underlying items and including the dilutive effect of share options, is the adjusted diluted EPS. This grew to 21.4 pence, up 21.6% from 17.6 pence in FY18.

	2019 P	2018 P	Growth %
Basic	20.4	18.4	10.9%
Diluted	20.1	18.1	11.1%
Adjusted basic	21.7	18.0	20.6%
Adjusted diluted	21.4	17.6	21.6%

Balance sheet

	2019 £m	2018 £m
Non-current assets	25.7	7.3
Current assets		
Inventories	15.2	11.4
Trade and other receivables	18.2	13.4
Cash	15.5	22.8
Current liabilities	(16.9)	(11.1)
Non-current liabilities	(4.3)	(0.4)
Net assets	53.4	43.4

Cash flow

	2019 £m	2018 £m
Free cash flow ¹	(5.9)	10.0
Add – non-underlying cash outflows	16.1	0.0
Underlying free cash flow	10.2	10.0

¹ Defined as net cash from operating activities less net cash used in investing activities.

Balance sheet

Non-current assets

The non-current assets comprise: goodwill; capitalised development costs; property, plant and equipment; and software. The goodwill of £5.3 million (FY18: £0.4 million) is almost all related to the acquisition of the ADAM Audio group in July 2019. The capitalised development costs have a carrying value of £9.2 million (FY18: £4.6 million). This comprises an increase of £1.6 million which is the excess of Focusrite capitalised development costs over the amortisation as well as the acquired capitalised development costs of £3.0 million within ADAM Audio which are

amortised over eight years. Approximately 70% of development costs are capitalised and they are amortised over three years. This policy is unchanged from last year. In addition, other intangible assets were acquired as part of the business combination, with brands valued at £7.5 million and to be amortised over ten years, as well as product designs of £1.5 million to be amortised over three years.

Working capital

Working capital was 20.2% of revenue (FY18: 19.0%). Within the Focusrite business, the working capital was 17.7% of revenue, compared with 19.0% last year. Debtors were naturally greater at the year end as there were significant sales of the new Scarlett generation of product within the final two months of the financial year. That said, the increase in stock was modest and creditors and accruals only increased marginally.

The working capital at ADAM Audio consists largely of stock with relatively low debtors. The management of ADAM Audio's working capital will be considered carefully over the coming year.

Stock continues to be managed carefully despite the hindrances of a lead time that is longer than the 'order book' and individual product demand that differs between months. Overall, stock within the Focusrite business increased from £11.4 million to £12.0 million. The stock within the ADAM business was £3.2 million.

Most customers continue to pay on time with a small proportion of customer debts overdue at the year end. Finally, it is aimed that all suppliers are paid on time.

Cash flow

The net cash balance at the year end was £14.9 million, down from £26.2 million at the half year and £22.8 million as at 31 August 2018. In July 2019, the Group bought ADAM Audio for £16.2 million. Subtracting a small holdback as part of the transaction and adding the costs of advisers paid prior to the year end, the cash paid prior to 31 August 2019 in respect of the transaction totalled £16.1 million. Adjusting for this, the year end free cash flow was £10.2 million (FY18: £10.0 million), which was 12.0% of revenue (FY18: 13.3%). Within this, the movement in working capital was an outflow of £2.2 million (FY18: outflow of £0.4 million). The conversion of revenue to free cash flow is important so this measure (free cash flow as a percent of revenue) is now to be included as an incentive for more senior management within the Group. Since the IPO, the average free cash flow as a percentage of revenue has been approximately 9%. Finally, the Group has a committed five-year £10 million revolving credit facility with HSBC, expiring in December 2020.

Dividend

The Board is proposing a final dividend of 2.6 pence per share (FY18 final dividend: 2.3 pence), which would result in a total of 3.8 pence per share for the year (FY18: 3.3 pence). This represents an adjusted earnings dividend cover of 5.6 times (FY18: 5.3 times).

Summary

The financial results of the Group have continued to strengthen during the year and the Directors are pleased with the final result and the fact that revenue, profits, EPS and dividend have all continued to grow. We are excited about the acquisition of ADAM Audio and believe that the combination of Focusrite and ADAM will drive further revenue and profit growth in the future. Many of the senior management are now incentivised on profit growth and free cash flow generation, which we believe will help to ensure that the revenue leads to cash, which can then be invested in further growth for the benefit of our shareholders.

Jeremy Wilson

Chief Financial Officer

Principal Risks and Uncertainties

Risk factors

In common with all businesses, the Group faces risks, the effective management of which is necessary to enable it to achieve its strategic objectives and secure the resilience of the business for the long term. Management of risk is critical to the effective running of the business and is considered as part of the Group's decision-making processes

Risk area	Description	Mitigation
Economic environment	The Group operates in the global economy and ultimately within the retail environment with products being sold to consumer end-user musicians. Such operations are influenced by global and national economic factors.	The Group sells products at all levels of the market in c.160 territories worldwide via three distinct product categories and is working to reduce reliance on any single product or territory, helped by the recent acquisition of ADAM Audio.
Brexit	The prospect of a no-deal to exit by the UK from European Union has caused considerable uncertainty. There has already been foreign exchange volatility and the imposition of some additional duties and minor disruption to the logistics network.	A large proportion of product is shipped directly from the manufacture to the distributors, particularly in the US and Asia. Product destined for continental Europe travels via the UK. The Group is positioning itself to be able to continue to supply products from the UK to continental Europe in the period following the exit. The Group has previously increased selling prices in the UK to correct the imbalance caused by the significant foreign exchange rate changes. A working group has been established in order to monitor the possible impacts of a no-deal exit and plans have been put in place to mitigate these risks, for example the rights of EU employees to live and work in the UK, the ability to trade on our existing contractual terms, how we will manage the personal data of customers if the UK is deemed to be a third country and other matters as they become known. Based on the above, the risk has been assessed as not significant.

USA import tariffs	<p>In September 2018 the USA implemented tariffs of 10% on the importing of most products manufactured in China. A further wave of 25% import tariffs was launched in May 2019. There is a risk that import tariffs could rise further. The Group has product manufactured in China, so selling product in the US is becoming more expensive.</p>	<p>The Group increased the minimum advertised price to cover the additional tariffs. This provided a possible upside from the higher price charged but an uncertainty regarding the effect of the higher price on consumer demand. The results were mixed: some products had unchanged demand. Demand for others fell. Longer term, the Group is taking further actions to mitigate the import duties including manufacture outside China, in an effort to make the impact of the tariff costs less significant.</p>
Product innovation	<p>The market for the Group's products is characterised by continued evolution in technology, evolving industry standards, changes in customer needs and frequent new competitive product introductions. If the Group is unable to anticipate or respond to these challenges or fails to develop and introduce successful products on a timely basis, it could have an adverse impact on the Group's business and prospects.</p>	<p>Research and development remains one of the Group's largest investments. The Group has a bespoke project system that facilitates the operation of a rigorous, disciplined product introduction process to ensure that as far as possible the fast-changing needs of its target markets are met. In addition, the Group continuously seeks efficiencies and minimises costs where possible.</p>
Supplier concentration	<p>The Group is dependent on a small number of suppliers, in particular its largest supplier, which supplies Focusrite interfaces. Failure or material delay by its suppliers to perform or failure by the Group to renew such arrangements could have a material adverse effect on the Group's business, operating results and financial position.</p>	<p>The Group has supply agreements with four major manufacturers. The Group works with its resellers and distributors to ensure they are holding sufficient stock levels should there be disruption to the supply chain. Relationships are long-lasting and strong. Members of the operations department within Focusrite meet each supplier three to four times per year to review performance and costs.</p>
Customer concentration	<p>In certain countries, including the USA, the Group operates via a single distributor or has large individual reseller customers. In certain cases, a failure of or breakdown in the relationship with a key reseller or distributor, or even the failure of a major customer of that distributor, could significantly and adversely affect the Group's business.</p>	<p>In cases where there is a large distributor in a significant market, the Group also communicates with the major retailers. In addition, the Group carefully monitors customer credit limits and has credit insurance which typically covers the majority of the customer debts outstanding at any point in time.</p>

Channels to market	Significant change in the methods by which end-users wish to buy Focusrite products could significantly affect the Group's business.	The Group or its distributors sell to both 'bricks and mortar' and e-commerce retailers so that the Group can satisfy customer demand via both methods.
Currency	The Group is exposed to currency and exchange rate fluctuations which may affect the Group's revenue and costs when reported in GBP.	There is a largely effective natural hedge for USD transactions as the Group uses its generation of USD to buy product in USD. Conversely, the Group has substantial Euro revenue and little cost. The Group mitigates this Euro exposure by entering into forward foreign exchange hedging contracts for the conversion of Euros to GBP.
People	The nature of the Group's business requires its employees in the technical and development teams to be highly skilled and experienced in their respective fields. The Group is dependent for its continued success on being able to attract, retain and motivate such individuals.	The Group is a leading company in the UK music industry and so attracts high-quality technical personnel. The Group also attracts graduates from music technology, electronics and engineering courses at renowned universities. The Group invests in developing its employees and incentivises them through wide-ranging share ownership incentives and other employment benefits to aid retention.
Intellectual property	The intellectual property and data developed by the Group is valuable and the Group could be harmed by infringement or loss.	The Group has established a programme for protecting its intellectual property and pursues infringements. The Group has data and information technology controls which are reviewed by the Group Board. Additionally, the Group includes data protection provisions in the contracts of all Group employees.

Information security

Information security and cyber threats are currently a priority across all industries and remain a key government agenda item.

The Group has carried out a detailed review of IT systems to identify elements requiring upgrade. There has already been a widespread upgrade of core IT functionality including cybersecurity (firewalls, anti-virus, mobile device management) and the implementation of backup and disaster recovery processes. The Group has moved core enterprise resource planning systems to the cloud with robust service level agreements in place to ensure data availability and security. The Group implemented a customer relationship management system to ensure GDPR compliance. There is an improving business continuity framework and a dedicated internal IT support team aided by external support providers.

FORWARD LOOKING STATEMENTS

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

Consolidated Income Statement

For the year ended 31 August 2019

	Note	2019 £'000	2018 £'000
Revenue	2	84,665	75,121
Cost of sales		(48,899)	(43,447)
Gross profit		35,766	31,674
Administrative expenses		(22,954)	(19,732)
EBITDA (non-GAAP measure)		17,197	15,485
Depreciation and amortisation		(3,648)	(3,872)
Non-underlying items	5	(737)	329
Operating profit		12,812	11,942
Finance income		246	4
Finance costs		(45)	(274)
Profit before tax		13,013	11,672
Income tax expense	6	(1,349)	(1,199)
Profit for the period from continuing operations		11,664	10,473
Earnings per share			
From continuing operations			
Basic (pence per share)	8	20.4	18.4
Diluted (pence per share)	8	20.1	18.1

Consolidated Statement of Comprehensive Income

For the year ended 31 August 2019

	2019 £'000	2018 £'000
Profit for the period (attributable to equity holders of the Company)	11,664	10,473
<i>Items that may be reclassified subsequently to the income statement</i>		
Exchange differences on translation of foreign operations	42	19
Profit/(loss) on forward foreign exchange contracts designated and effective as a hedging instrument	(245)	541
Tax on hedging instrument	47	(106)
Total comprehensive income for the period	11,508	10,927
Total comprehensive income attributable to:		
Equity holders of the Company	11,508	10,927
	11,508	10,927

The notes form part of the financial statements.

Consolidated Statement of Financial Position

As at 31 August 2019

	2019	2018
	£'000	£'000
Assets		
Non-current assets		
Goodwill	5,271	419
Other intangible assets	18,832	5,620
Property, plant and equipment	1,602	1,275
Total non-current assets	25,705	7,314
Current assets		
Inventories	15,182	11,391
Trade and other receivables	18,188	13,310
Cash and cash equivalents	15,505	22,811
Derivative financial instruments	-	100
Total current assets	48,875	47,612
Total assets	74,580	54,926
Equity and liabilities		
Capital and reserves		
Share capital	58	58
Share premium	115	115
Merger reserve	14,595	14,595
Merger difference reserve	(13,147)	(13,147)
Translation reserve	92	50
Hedging reserve	(152)	46
Treasury reserve	(1)	(1)
Retained earnings	51,827	41,731
Equity attributable to owners of the Company	53,387	43,447
Total equity	53,387	43,447
Current liabilities		
Trade and other payables	15,664	10,709
Current tax liabilities	430	427
Derivative financial instruments	188	-
Bank overdraft	627	-
Total current liabilities	16,909	11,136
Non-current liabilities		
Deferred tax	4,284	300
Derivative financial instruments	-	43
Total liabilities	21,193	11,479
Total equity and liabilities	74,580	54,926

The financial statements were approved by the Board of Directors and authorised for issue on 19 November 2019. They were signed on its behalf by:

Tim Carroll
Chief Executive Officer

Jeremy Wilson
Chief Financial Officer

The notes form part of the financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 August 2019

	Share capital £'000	Share premium £'000	Merger reserve £'000	Merger difference reserve £'000	Translation reserve £'000	Hedging reserve £'000	EBT reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 September 2017	58	-	14,595	(13,147)	31	(389)	(3)	31,739	32,884
Profit for the period	-	-	-	-	-	-	-	10,473	10,473
Other comprehensive income for the period	-	-	-	-	19	435	-	-	454
Total comprehensive income for the period	-	-	-	-	19	435	-	10,473	10,927
Transactions with owners of the Company:									
Share-based payment deferred tax deduction in excess of remuneration expense	-	-	-	-	-	-	-	95	95
Share-based payment current tax deduction in excess of remuneration expense	-	-	-	-	-	-	-	698	698
New shares issued	-	115	-	-	-	-	-	-	115
Shares from EBT exercised	-	-	-	-	-	-	2	189	191
Share-based payments	-	-	-	-	-	-	-	216	216
Dividends paid	-	-	-	-	-	-	-	(1,679)	(1,679)
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 31 August 2019	58	115	14,595	(13,147)	92	(152)	(1)	51,827	53,387

Consolidated Cash Flow Statement

For the year ended 31 August 2019

	Note	2019 £'000	2018 £'000
Operating activities			
Profit for the financial year		11,664	10,473
Adjustments for:			
Income tax expense		1,349	1,199
Net interest		(201)	270
Loss/(profit) on disposal of property, plant and equipment		3	(14)
Amortisation of intangibles		2,936	2,804
Depreciation of property, plant and equipment		712	740
Share-based payments charge		348	216
Operating cash flows before movements in working capital		16,811	15,688
(Increase) in trade and other receivables		(4,203)	(358)
(Increase) in inventories		(696)	(3,057)
Increase in trade and other payables		2,681	2,989
Operating cash flows before interest and tax paid		14,593	15,262
Net interest received/(paid)		58	(36)
Income taxes paid		(825)	(478)
Cash generated by operations		13,826	14,748
Net foreign exchange movements		185	(226)
Net cash from operating activities		14,011	14,522
Investing activities			
Purchases of property, plant and equipment		(808)	(651)
Purchases of intangible assets		(4,210)	(3,880)
Proceeds from disposal of property, plant and equipment		25	19
Proceeds from disposal of other intangible assets		50	-
Acquisition of subsidiary, net of cash acquired		(14,996)	-
Net cash used in investing activities		(19,939)	(4,512)
Financing activities			
Issue of equity shares		-	306
Equity dividends paid	7	(2,005)	(1,679)
Net cash used in financing activities		(2,005)	(1,373)
Net (decrease)/increase in cash and cash equivalents		(7,933)	8,637
Cash and cash equivalents at beginning of year		22,811	14,174
Cash and cash equivalents at end of year		14,878	22,811

The notes form part of the financial statements.

Notes to the Final Results

For the year ended 31 August 2019

These condensed preliminary financial statements of the Company and its subsidiaries ("the Group") for the year ended 31 August 2019 have been prepared using accounting policies consistent with International Financial Reporting Standards (IFRSs).

The information contained within this announcement has been extracted from the audited financial statements which have been prepared in accordance with IFRS as adopted by the European Union ('adopted IFRS'), and with those parts of the Companies Act 2006 applicable to companies reporting under adopted IFRS. They have been prepared using the historical cost convention except where the measurement of balances at fair value is required.

The Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertainties within the global economy. The Group has considerable financial resources, ongoing revenue streams and a broad spread of customers. As a consequence of these factors and having reviewed the forecasts for the coming year, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing these financial statements.

The statutory accounts for the year ended 31 August 2018 have been reported on by the Company's auditors and delivered to the Registrar of Companies. The statutory accounts for the year ended 31 August 2019 will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The auditors have reported on those accounts; their report was unqualified, did not include references to any matter which the auditors drew attention by way of emphasis without qualifying their report and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

Availability of audited accounts:

Copies of the 31 August 2019 audited accounts will be available on 19 November 2019 on the Company's website (www.focusriteplc.com/investors) for the purposes of AIM rule 26 and will be posted to shareholders in due course.

1 ACQUISITION OF A SUBSIDIARY

On 16 July 2019, the Group acquired 100% of the shares and voting interests in Pro Audio Beteiligungs GmbH, which comprises ADAM Audio GmbH and its overseas subsidiaries ('ADAM Audio') for a total consideration of £15,265,000, of which £14,996,000 was satisfied in cash and £269,000 is accrued as deferred consideration. The deferred consideration is in relation to potential legal fees as a result of the acquisition, which if not incurred will be paid over to the seller. Based on the amount of the consideration, management has considered the discounting effect not to be material.

ADAM Audio designs and markets high specification studio monitors and speakers for use in professional recording studios. It also offers monitors tailored for amateur and intermediate level music professionals as well as loudspeakers and headphones.

The acquisition extends the Group's product offering to incorporate a comprehensive range of monitors well-aligned to its existing customer base, reflecting a strong fit with the previously communicated strategic aims to grow the core customer base, expand into new markets and increase lifetime value for customers.

For the six week period between the acquisition and 31 August 2019, Adam Audio contributed revenue of £1,750,000 and a segment profit of £159,000 to the Group's results. If the acquisition had occurred on 1 September 2018, management estimates that ADAM Audio's revenue would have been £12,359,000 and loss for the year would have been £484,000. 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 2018.

Acquisition-related costs

The Group incurred acquisition-related costs of £737,000 on legal fees and due diligence costs. These costs have been included in 'non-underlying costs'.

Identifiable assets acquired and liabilities assumed

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

Recognised values on acquisition	£'000
Brand	7,500
Products designs	1,500
Product developments	2,985
Other intangible assets	11,985
Property, plant and equipment	261
Cash	674
Inventories	3,094
Trade and other receivables	677
Deferred tax	(3,463)
Trade and other payables	(2,188)
Bank overdraft	(627)
Net identifiable assets and liabilities at fair value	10,413
Goodwill recognised on acquisition	4,852
Consideration paid and accrued	15,265

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 £706,000, of which £157,000 was expected to be uncollectable at the date of acquisition.

Fair values measured on a provisional basis

If new information is obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition identifies adjustments to the above amounts, or any additional provisions that existed at the date of acquisition, then the accounting for the acquisition will be revised.

Goodwill

The goodwill is attributable to:

- the skills and technical talent of the ADAM Audio workforce;
- worldwide reputation based on product design and technological innovation;
- alignment to the Group's existing customer base; and
- strong strategic fit to grow the core customer base, 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 product 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 £7,500,000, Product development at £2,543,000 and Product design at £1,500,000.

	Brand			Product development			Product design		
	9 years	10 years	11 years	7 years	8 years	9 years	2 years	3 years	4 years
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Annual amortisation	833	750	682	363	318	283	750	500	375
Impact on Profit	(83)	-	68	(45)	-	35	(250)	-	125

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

2 REVENUE

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

	Year ended 31 August 2019				Year ended 31 August 2018			
	EMEA	North America	Rest of World	Total	EMEA	North America	Rest of World	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Focusrite	22,059	26,366	9,219	57,644	17,687	22,402	7,342	47,431
Focusrite Pro	1,316	2,537	851	4,704	1,528	2,538	696	4,762
Focusrite combined	23,375	28,903	10,070	62,348	19,215	24,940	8,038	52,193
Novation	7,096	6,684	3,939	17,719	7,629	7,780	4,657	20,066
ADAM Audio	714	758	278	1,750	-	-	-	-
Distribution	2,848	-	-	2,848	2,862	-	-	2,862
Total	34,033	36,345	14,287	84,665	29,706	32,720	12,695	75,121

3 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 Focusrite 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
Distribution Electronics	–	Distribution of third-party brands including KRK, Stanton, Cerwin-Vega, Cakewalk and sE

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 within the Annual Report. 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 Focusrite and its US subsidiary, net of inter-company commission income. Also included within central administration costs is the charge relating to the share option scheme of £348,000 for the year ended 31 August 2019 (2018: £216,000).

	Year ended 31 August	
	2019	2018
	£'000	£'000
Revenue from external customers		
Focusrite	57,644	47,431
Focusrite Pro	4,704	4,762
Novation	17,719	20,066
ADAM Audio	1,750	-
Distribution	2,848	2,862
Total	84,665	75,121
Segment profit		
Focusrite	28,785	22,245
Focusrite Pro	2,908	2,862
Novation	8,680	10,063
ADAM Audio	159	-
Distribution	807	795
	41,339	35,965
Central distribution costs and administrative expenses	(27,790)	(24,352)
Non-underlying items	(737)	329
Operating profit	12,812	11,942
Finance income	246	4
Finance costs	(45)	(274)
Profit before tax	13,013	11,672
Tax	(1,349)	(1,199)
Profit after tax	11,664	10,473

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

	2019	2018
	£'000	£'000
Non-current assets		
North America	124	81
Europe, Middle East and Africa	24,900	6,705
Rest of the World	681	528
Total non-current assets	25,705	7,314

Information about major customers

Included in revenues shown for 2019 is £33.4 million (2018: £31.2 million) attributed to the Group's largest customer, which is located in the USA. Amounts owed at the year end were £8.5 million (2018: £6.3 million)

4 PROFIT FOR THE YEAR

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

	Year ended 31 August	
	2019	2018
	£000	£000
Net foreign exchange (gains)/losses	(103)	234
Research and development costs (excluding costs capitalised)	1,939	1,524
Depreciation and impairment of property, plant and equipment	714	740
Profit on disposal of property, plant and equipment	3	(14)
Amortisation of intangibles	2,936	2,804
Operating lease rental expense	466	384
Cost of inventories recognised as an expense	41,805	39,093
Staff costs (excluding share-based payments)	10,339	8,969
Movement in expected credit loss	(40)	29
Share-based payments charged to profit and loss	348	216

5 NON-UNDERLYING ITEMS

During the year ended 31 August 2019 the Group incurred acquisition-related costs totalling £737,000 in respect of the acquisition of Pro Audio Beteiligungs GmbH and its subsidiary. These non-recurring costs have been shown as a non-underlying item in the Income Statement. During the year ended 31 August 2018, the Directors considered the date from which amortisation of development costs should start and decided that it was more appropriate that the amortisation start date be assessed for each product developed rather than applying a single, albeit more prudent, rule for all. As a result, there was an adjustment to the Income Statement to reduce the amortisation charged to date by £329,000 and in 2018 this was shown as a non-underlying item in the Income Statement as it was a change in estimate.

6 TAX

	Year ended 31 August	
	2019	2018
	£'000	£'000
Corporation tax charges:		
Over provision in prior year	(127)	(160)
Current year	1,242	1,315
	1,115	1,155
Deferred taxation		
Current year	234	44
	1,349	1,199

Corporation tax is calculated at 19% (2018: 19%) of the estimated taxable profit for the year. Taxation for the US and Germany 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	
	2019	2018
	£'000	£'000
Current taxation		
Profit before tax on continuing operations	13,013	11,672
Tax at the UK corporation tax rate of 19% (2018: 19%)	2,472	2,218
Effects of:		
Expenses not deductible for tax purposes	133	48
R&D tax credit	(1,093)	(872)
Prior period adjustment - current tax	(127)	(160)
Effect of change in standard rate of deferred tax	-	14
Overseas tax	(36)	(49)
Tax charge for period	1,349	1,199

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:

	2019	2018
	£'000	£'000
Share-based payment deferred tax deduction in excess of remuneration expense	(238)	95
Share-based payment current tax deduction in excess of remuneration expense	310	698
	72	793

A reduction in the UK corporation tax rate from 19% to 18% (effective from 1 April 2020) was substantively enacted on 25 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly. The deferred tax asset at 31 August 2019 has been calculated based on these rates.

7 DIVIDENDS

The following equity dividends have been declared:

	Year to 31 August 2019	Year to 31 August 2018
Dividend per qualifying ordinary share	3.8p	3.3p

During the year, the Company paid an interim dividend in respect of the year ended 31 August 2019 of 1.2 pence per share.

On 19 November 2019, the Directors recommended a final dividend of 2.6 pence per share (2018: 2.3 pence per share), making a total of 3.8 pence per share for the year (2018: 3.3 pence per share).

8 EARNINGS PER SHARE ('EPS')

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

Earnings	Year ended 31 August	
	2019	2018
	£'000	£'000
Earnings for the purposes of basic and diluted EPS, being net profit for the period	11,664	10,473
Non-underlying items	737	(329)
Tax on non-underlying items	-	63
Total underlying profit for adjusted EPS calculation	12,401	10,207

	Year ended 31 August	
	2019	2018
	Number	Number
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic EPS calculation	57,221	56,825
Effect of dilutive potential ordinary shares:		
EMI Scheme and unapproved share option plan	824	1,151
Weighted average number of ordinary shares for the purposes of diluted EPS calculation	58,045	57,976

	Pence	Pence
EPS		
Basic EPS	20.4	18.4
Diluted EPS	20.1	18.1
Adjusted basic EPS	21.7	18.0
Adjusted diluted EPS	21.4	17.6

At 31 August 2019, the total number of ordinary shares issued and fully paid was 58,111,639. This included 782,652 (2018: 1,159,021) 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 (890,733). 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.