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Focusrite Plc
(“the Company” or “the Group”)
Final Results for the Year Ended 31 August 2016

Focusrite Plc (AIM: TUNE), the global music and audio products company, announces Final Results for the year ended 31 August 2016.

Financial highlights

- Group revenue grew by 13.1% to £54.3 million (FY15: £48.0 million)
- Adjusted EBITDA¹ grew by 10.2% to £10.2 million (FY15: £9.3 million)
- Operating profit grew 13.0% to £7.1 million (FY15: £6.3 million)
- Profit before tax grew 9.9% to £7.1 million (FY15: £6.5 million)
- Basic earnings per share grew 13.5% to 11.8p (FY15: 10.4p)
- Adjusted² diluted earnings per share grew 8.6% to 11.4p (FY15: 10.5p)
- Net cash of £5.6 million (FY15: £6.2 million)
- Proposed final dividend increased by 8.3% to 1.3p recommended making 1.95p for the year (FY15: 1.8p)

Operational highlights

- Continued growth across all geographies with 16 new products launched this year.
- Strong performance from Focusrite products with the launch of a new generation of the world’s number one audio interface, Scarlett.
- Entrance into lucrative adjacent price segments with Clarett and Red ranges receiving positive channel and consumer reaction.
- Further strong sales growth of RedNet products, targeted at the live sound and broadcast business-to-business markets.
- Novation strategy executing to plan with new software updates to the Circuit and Launchpad Pro products.
- Launch of highly intuitive Blocs Wave app, making it easier for musicians to create their own sounds and songs from scratch on any iOS smartphone or tablet, with over 47,000 downloads to date.
- Strong growth in Rest of World with sales improving by 28.1% and opening of a new dedicated Asia office in Hong Kong to support further growth.
- Launch of new e-commerce websites in the UK and USA.
- Queen's Award for Enterprise for International Trade and named in the ‘Sunday Times 100 Best Small Companies to Work For’ for fifth successive year

¹ *Comprising of earnings adjusted for interest, taxation, depreciation, amortisation and non-underlying items.*

² *Adjusted for non-underlying items (see note 4).*

Commenting on the results, Executive Chairman Phil Dudderidge said:

“Focusrite has had an excellent second year of trading as a public company. We have continued to grow revenue and correspondingly our profits as we deliver on our strategic goals. There have been a number of drivers for this increase including an improving market share globally, a strong performance from new and existing products, and a number of new sales, marketing and distribution initiatives.”

Commenting on current trading, Chief Executive Officer Dave Froker said:

“Pleasingly, our positive trading momentum has continued in the period since the year end. Our strategy is paying off as we grow our market share, revenue and profits. We’ve energetically introduced new innovative products which continue to be well received by our customers. We are managing our way through macroeconomic turbulence and the expansion of our channels to market is driving opportunities for growth. We look ahead with confidence.”

Availability of Annual Report and Notice of AGM

The Annual Report and Accounts for the financial year ended 31 August 2016 and notice of the Annual General Meeting ("AGM") of Focusrite will be posted to shareholders by 5 December 2016 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 10 January 2017.

The timetable for the final dividend is as follows:

1 December 2016	Ex-dividend Date
2 December 2016	Record Date
10 January 2017	AGM to approve the recommended final dividend
18 January 2017	Dividend payment date

- ends -

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

CHAIRMAN'S STATEMENT

Focusrite has had an excellent second year of trading as a public company and I am very pleased to report on the Company's performance and progress over the last 12 months.

We have continued to grow revenue and correspondingly our profits as we deliver on our strategic goals. The year-on-year performance has been strong, showing a significant increase in revenue of 13.1% to £54.3 million. There have been a number of drivers for this increase including improving market share globally, a strong performance from new and existing products, and a number of new sales, marketing and distribution initiatives.

Given the cash-generative characteristics of the business and the strength of our balance sheet, the Board has decided to recommend a final dividend of 1.3 pence per share (FY15 final dividend 1.2 pence), giving a total of 1.95 pence per share for the year (FY15: 1.8 pence). The final dividend is subject to shareholder approval, which is being sought at Focusrite's Annual General Meeting ('AGM') to be held in January 2017.

Importantly, all our achievements represent the collective efforts of an outstanding workforce. With the majority of our employees being active musicians there is a real enthusiasm for what we do and a wealth of inherent expertise.

Approximately a third of our people are engaged in product development and I am very proud of their world-class capabilities. Our marketing and sales staff are exemplars in the global market we inhabit, employing state-of-the-art digital marketing techniques to ensure that the Focusrite and Novation brands are recognised as the 'Best Choice at Every Price Point', a company ambition that we are continually striving to achieve.

In this regard, FY16 produced a number of significant product achievements, most notably the complete renewal of our Focusrite Scarlett audio interface range, the global leader in the sub-\$500 product category. This complete design revision of Scarlett improves the audio performance, industrial design and control software, and as a result will continue to defend and improve our market share in a competitive market. Scarlett Gen.2 is also bundled free with 'Avid Pro Tools | First' recording software for the first time. This is a ringing endorsement of Focusrite as the perfect partner for Pro Tools.

Additionally we remain active across all price points in the professional music recording market, addressing identified market requirements. The new Focusrite Clarett and Red ranges (\$500-\$4000) were successfully launched this year, as were second generation RedNet products, targeted at high-calibre institutional customers such as Microsoft and Disney, as well as broadcasters and universities.

Progress at Novation, our Company's music creation brand, was predominantly driven by our innovative Circuit product. Launched in the first half of FY16, Circuit is a new concept musical instrument, which actually inspires and helps in the creation of electronic music. Regular software enhancements are meeting customer aspiration and Circuit is becoming a considerable success in this new category.

During FY16, we have also been active on the sales, distribution and marketing side of the business and recently established a marketing and sales subsidiary in the Asia Pacific region to represent our brands in these territories, working without third-party distributors. This region continues to show substantial growth.

In Europe we appointed a new distributor for France and Benelux. Algam is the market-leading distributor of musical instruments and professional audio products in these geographies and this move has resulted in a valuable increase in sales in these territories.

Our largest market remains the USA and six years ago we established Focusrite Novation Inc. as a marketing subsidiary to promote and support our brands alongside our third-party distributor. This continues to prove a successful business model with sales into the retail channel continuing to increase in FY16.

We acknowledge our excellent relationships with all our authorised retailers, distributors and resellers in the USA and across the rest of the world and we thank them for their continued custom and support.

Overall it has been a real year of progress and I am delighted that as a result of all our employees' hard work, we were the proud winners of the Queen's Award for Enterprise for International Trade and, for the fifth year running, were included in the Sunday Times 100 Best Small Companies to Work For.

Finally, I would also like to take this opportunity to express my appreciation to retiring Chief Executive Office, Dave Froker. He has been a valuable and integral member of the Focusrite team for several years and has made a terrific contribution to our success. We wish him every happiness in his retirement back home in the USA. The process for finding a successor to Dave Froker continues and is well advanced. Furthermore, I would also like to acknowledge the entire executive team for their tireless commitment to growing the business and, most importantly, to 'always making things happen'!

As we look forward to the next financial year, we will be focused on the same mantra!

Phil Dudderidge
Executive Chairman

CHIEF EXECUTIVE'S STATEMENT

Focusrite has been quoted on the AIM market now for almost two years and during that time we have gone from strength to strength. We continue to hit our growth benchmarks and perform well both operationally and financially.

Our growth this year was driven by new product releases which were supported by positive industry and consumer acceptance. The Group continues to penetrate new market segments and price points with best in class, user-friendly products. Customer and sales channel satisfaction feedback remains strong on new and existing products and continued high levels of end-user satisfaction are illustrated by our top net promoter scores for individual products.

Growth strategy

Our strategy of innovation and expansion continues to work and we are leading the market with our cutting edge technology and design, which continues to attract industry recognition. We remain committed to making music easier to make for professionals and hobbyists and our success is driven by our entrepreneurial and pioneering team, many of whom are themselves musicians.

Financial performance

Having clearly outlined to investors our strategy for growth, which focuses on the four key areas of *Innovate, Disrupt, Make Easy* and *Expand*, we have this year shown that the wider operational team has the capability to execute that strategy.

As a result we have grown Group revenues by 13.1% to £54.3 million (FY15: £48.0 million). Following last year's Novation product introductions and growth, the real engine for growth this year has been the Focusrite products, with sales increasing by 20.4% from £31.2 million to £37.6 million. Profitability also grew with adjusted EBITDA up by 10.2% to £10.2 million (FY15: £9.3 million).

Regionally, the USA grew by 15.6% with further growth in our Scarlett range, boosted by the launch of the 2nd generation, and strong uptake of our Clarett and Red products in the second half. Europe grew by 5.2%, despite Brexit and currency movements and the Rest of World region grew by 28.1%, notably in Asia where our Novation products, in particular, have proved very popular.

The market

Pleasingly, the overall music equipment market still continues to grow and the Company grew market share despite facing some macroeconomic headwinds.

The most notable of these was the UK's Brexit vote in June 2016 and the resulting significant currency exchange rate volatility both before and after the result. It is too early to know if there will be any impact on underlying consumer demand for our products as a result of Brexit, but to date we have seen no evidence of this.

The USA still has a relatively healthy economy, and overall seems in better shape than the Eurozone and Latin America. Asia continues to grow faster than the rest of the world despite China's slowdown, although it is currently a small part of our business, but we hope to capitalise more on this region of the world now we have a dedicated presence in Hong Kong.

Products

During the year we introduced 16 new products across our business segments. Our major product launches and growth drivers this year have been within the Focusrite business segment, which accounts for 69.2% of our overall turnover. All new products were delivered on schedule and are gaining market share. The feedback via our sales channels and from end customers has been positive.

Within Focusrite our major initiative this year was the launch of the new generation of Scarlett, an improved version of the world's number one audio interface. The new and upgraded Scarlett range is targeted widely, from aspiring musicians recording at home (a large market) through to professional producers and sound engineers. This second generation of Scarlett has been well received by our sales channels and consumers and has received enthusiastic industry media reviews.

Alongside this, we also entered the lucrative adjacent price segments with new Clarett and Red interfaces. The Clarett Thunderbolt line is priced between \$500 and \$1,300 and has sold well since its introduction. The Red Series offers unequalled sound quality, speed and ease of use for professional recording engineers and producers, and has been widely acclaimed in the trade media. It started shipping in April and sales are now starting to build up nicely.

We also continue to open up new market segments with our RedNet products, which enable numerous high-quality audio signals to be distributed via 'Audio over IP' based technology, utilising common off-the-shelf networking infrastructure. Delivered in real time across a network, these products are targeted at the live sound and broadcast business-to-business markets.

In the previous financial year we introduced a large number of new Novation products and so this year has been a quieter year for this brand as expected. We have executed our new strategy for this market segment by continuously upgrading our innovative Circuit groove box with new software. We continue to strive to make music easier to make and in this regard we are particularly pleased with the performance and market acceptance of Circuit, across all our sales channels.

As announced at the time of the interim results, we launched Blocs Wave, the second iOS app from our London based software team. The app has been designed for everybody to use, whether a professional or beginner, and is highly intuitive. Blocs Wave makes it easier for musicians to create their own sounds and songs from scratch on any iOS smartphone or tablet. With initial support from Apple, downloads have been strong with over 47,000 to date.

Finally, although a small part of our overall product mix, we continue to distribute third-party products and during the year, we agreed a new distribution deal for sE Electronics microphones in the UK.

New initiatives

We are always looking at ways to expand our sales channels, improve our distribution and capture margin.

During the year we opened an office in Hong Kong as mentioned above. This will give us a better understanding of our customers and help to maintain close links with our contract manufacturers in China. Ultimately, we plan to increase the proportion of the Group's revenue coming from Asia.

Additionally, we launched Focusrite's first web-store in the UK. We have now expanded this to the USA and some European territories and although still in its infancy we see the potential for creating a direct sales channel for our products. In addition, where customers wish to try our products prior to buying, we will direct them to the dealers that sell our products, providing a further benefit to those dealers.

On the logistics side of the business we successfully transitioned our business to Kuehne + Nagel to achieve more highly integrated supply chain and delivery management. This is expected to impact our logistics positively and further improve the efficiency of our operations.

Our people

Managed by a skilled operations board with combined music industry experience in excess of 100 years and with an average Focusrite service of over 12 years each, we can truly demonstrate strength and depth in our management team.

Supporting them we have an energetic, committed and creative young workforce who develop, market and sell our products. A very high proportion of our workforce are users of our products, 62% are 35 years of age or below and 87% own shares or stock options in Focusrite Plc. It has been my great pleasure and privilege to help guide and lead them while I have been Chief Executive.

Current trading and outlook

Pleasingly, our positive trading momentum has continued in the period since the year end. Our strategy is paying off as we grow our market share, revenue and profits. We've energetically introduced new innovative products which continue to be well received by our customers. We are managing our way through macroeconomic turbulence and the expansion of our channels to market is driving opportunities for growth. We look ahead with confidence.

This will be my last report as Chief Executive of Focusrite, as I have announced my retirement and intention to return to the USA. I would like to thank all of my Board colleagues, as well as all of our employees, who are truly world-class colleagues, for their support and dedication. I remain a shareholder in the business and am confident that the Company can achieve even greater things over the longer term.

Dave Froker

Chief Executive Officer

FINANCIAL REVIEW

Overview

The Group has delivered another positive year exceeding market expectations with revenue up 13.1%, adjusted EBITDA up 10.2% and adjusted diluted earnings per share up 8.6%.

Income statement

Revenue

Revenue grew from £48.0 million to £54.3 million, continuing the record of double digit percentage growth achieved each year since 2009. In FY15, the faster growth was in the Novation range as the Group launched several new or updated products within that brand. In FY16, the Group has launched more new or updated products in the Focusrite range and consequently the Focusrite brand has increased revenue by 20.4%. This included the high end RedNet range which increased by 15.9%. The Novation brand declined by 3.4% although consumer registrations increased by 11.9% indicating that the revenue decline was due to the managing of stock held by dealers rather than a decline in consumer demand.

Regionally, the USA grew by 15.6% to £21.4 million, Europe by 5.2% to £22.6 million and the Rest of World by 28.1% to £10.3 million. The primary driver of growth in the Rest of World region was Asia, which has been a great market for the Novation products and in which the Group launched a new sales office in Hong Kong in early 2016.

As ever, exchange rates played a part with the US Dollar and the Euro both strengthening against Sterling during FY16. At constant exchange rates, revenue grew by 7.5%.

Gross profit

Gross profit increased to £20.9 million (FY15: £18.6 million), a gross margin of 38.4% (FY15: 38.8%). The gross margin reduced slightly due to the strengthening of the US Dollar which increased revenue but also increased cost of sales by a similar value in Sterling terms, thereby reducing the gross margin as a percentage of revenue.

Adjusted EBITDA

Adjusted EBITDA (earnings before interest, tax, depreciation, amortisation and non-underlying items) increased by 10.2% to £10.2 million (FY15: £9.3 million). The rate of growth was slightly slower than the rise in revenue due to the lower gross margin, a greater amount spent on sales (with the US and Asia offices) and marketing (with significant new product launches).

In FY16, there was a non-underlying cost of £0.5 million due to legal cases relating to intellectual property and distribution contracts which have no significant effect on our ongoing business. The one remaining case relates to the cessation of a distribution contract and the Group continues to defend its position vigorously.

In FY15, there was an exceptional cost of £0.7 million relating to the costs of the Initial Public Offering, when the Group floated on the AIM market in December 2014.

Income statement

	2016	2016	2016	2015	2015	2015
	£m	£m	£m	£m	£m	£m
	Reported	Non-underlying	Adjusted	Reported	Non-underlying	Adjusted
Revenue	54.3	-	54.3	48.0	-	48.0
Cost of sales	(33.4)	-	(33.4)	(29.4)	-	(29.4)
Gross profit	20.9	-	20.9	18.6	-	18.6
Administrative expenses	(13.8)	0.5	(13.3)	(12.3)	0.7	(11.6)
Operating profit	7.1	0.5	7.6	6.3	0.7	7.0
Net finance income	(0.0)	-	(0.0)	0.2	-	0.2
Profit before tax	7.1	0.5	7.6	6.5	0.7	7.2
Income tax expense	(0.8)	(0.1)	(0.9)	(1.0)	-	(1.0)
Profit for the period	6.3	0.4	6.7	5.5	0.7	6.2

	2016	2016	2016	2015	2015	2015
	£m	£m	£m	£m	£m	£m
	Reported	Non-underlying	Adjusted	Reported	Non-underlying	Adjusted
Operating profit	7.1	0.5	7.6	6.3	0.7	7.0
Add – amortisation of intangible assets	2.1	-	2.1	1.9	-	1.9
Add – depreciation of tangible assets	0.5	-	0.5	0.4	-	0.4
EBITDA	9.7	0.5	10.2	8.6	0.7	9.3

Foreign exchange and hedging

During the period, there have been significant movements in both the US Dollar and the Euro.

Exchange rates	FY16	FY15
Average		
USD:GBP	1.45	1.56
EUR:GBP	1.29	1.35
Year end		
USD:GBP	1.31	1.54
EUR:GBP	1.18	1.37

The Group has a largely effective natural hedge in US Dollars. Therefore, while, the US Dollar strengthened from an average USD:GBP exchange rate of \$1.56 in FY15 to \$1.45 in FY16, the positive impact on revenue is negated by the impact on cost of sales because the Group's products are bought in US Dollars from China and therefore become correspondingly more expensive in Sterling terms

The Euro represents approximately 25% of revenue and little cost. The Group hedges its Euro cash flows up to one financial year ahead. In FY16, the average rate was €1.29 and approximately 75% of the flows were hedged at €1.39 creating an effective exchange rate of €1.37. In FY15, the average EUR:GBP exchange rate was €1.35 and approximately 75% of the Euro flows were hedged at €1.27 creating an effective exchange rate of €1.29. The hedged exchange rate for the coming financial year (FY17) is €1.28.

In previous years, the outstanding hedging contracts have been revalued and movement in fair value shown in the income statement. The hedging contracts relating to FY17 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.

Corporation tax

The effective tax rate for FY16 was approximately 12.2% as the Group is expected to benefit from tax credits in respect of research and development and share options.

Earnings per share

The basic earnings per share increased by 13.5% to 11.8p (FY15: 10.4p) driven by the higher profit before tax and the lower effective tax rate. In a similar fashion, the adjusted diluted earnings per share increased by 8.6% to 11.4p (FY15: 10.5p).

Earnings per share

	FY16	FY15	Growth
	p	p	%
Basic	11.8	10.4	13.5%
Diluted	10.7	9.3	15.1%
Adjusted basic	12.6	11.8	6.8%
Adjusted diluted	11.4	10.5	8.6%

Balance sheet

	2016	2015
	£m	£m
Non-current assets	6.4	5.3
Current assets		
Inventories	11.4	8.6
Trade and other receivables	11.2	7.7
Other current assets	-	0.2
Cash	5.6	6.2
Current liabilities	(10.4)	(8.8)
Non-current liabilities	(0.3)	(0.7)
Net assets	23.9	18.5

Cash flow

	2016	2015
	£m	£m
Free cash flow ¹	0.2	2.7
Add – non-underlying cash outflows	0.2	1.2
Underlying free cash flow	0.4	3.9

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

Balance sheet

Non-current assets

The non-current assets comprise mainly capitalised research and development costs. Approximately 80% of research and development costs are capitalised and they are amortised over three years. The typical product life is three to six years. This policy is unchanged from last year.

Working capital

Working capital increased from 15.7% of revenue to 22.4% of revenue. The biggest factor driving this was the increased level of stock. The Group developed and launched several new and innovative Focusrite and Novation products without a demand history both this financial year and in the previous year and, in light of the lead times being as long as six months, decided to increase stock to reduce the risk of running out of stock, should demand soar. As the demand pattern becomes more predictable, the stock quantities will be reduced. A second, less significant factor was a change in payment terms afforded to one customer.

Cash flow

Cash at the period end was £5.6 million, up from £4.0 million at the half year but down from £6.2 million at 31 August 2015, driven by the higher stock and debtors explained previously. Notwithstanding these factors, the free cash flow remained positive at £0.2 million (FY15: £2.7 million) and the Group has a £10 million revolving credit facility with HSBC.

Dividend

In accordance with the Group's progressive dividend policy, the Board is proposing a final dividend of 1.3 pence per share (FY15 final dividend 1.2 pence), which would result in a total of 1.95 pence per share for the year (FY15: 1.8 pence). At this level, the dividend is covered approximately six times by earnings. The Group remains focused on growth and maintains a significant dividend cover to afford continued investment in order to generate further growth in the future.

Summary

The Group has grown revenue by 13.1% in the year, adjusted EBITDA by 10.2% and adjusted diluted earnings per share by 8.6%. The Group is cash-generative and well-funded, supported by £5.6 million of cash and a £10 million revolving credit facility. The performance this year has continued the trend, over many years, of strong growth and the Group is working hard to maintain that positive progress going forward.

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 a retail environment to consumer end-user musicians. Such operations are influenced by global and national economic factors.	The Group sells products in around 160 territories worldwide via two distinct product categories and so aims to avoid being unduly reliant on any single product or territory.
UK exit from the European Union	The impact of the decision to exit the European Union remains uncertain. There has already been foreign exchange volatility and it is possible that, in future, the UK may not be part of the European free trade zone, or the Customs Union.	The Group has increased selling prices in UK to correct the imbalance caused by the significant foreign exchange rate changes. The Group will continue to monitor other possible effects of Brexit and act accordingly as they become known.
Technological changes, product innovation and competition	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.	The Group invests significantly in its research and development and operates 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 Board aims to operate an efficient, low-cost business.
Dependence on a small number of suppliers	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.	The Group aims to diversify its risk by using four major Chinese manufacturers for the production of its products. Relationships are long-lasting and strong. Typically, members of the operations department within Focusrite meet each supplier every quarter to review performance and costs.
Key resellers and distributors	In certain countries, 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 could significantly and adversely affect the Group's business.	In cases where there is a large distributor in a significant market (e.g. the USA), the Group also maintains contact 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.

Development of the 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 risks	The Group is exposed to currency and exchange rate fluctuations which may affect the Group's revenue and costs when reported in Sterling.	There is a largely effective natural hedge for USD transactions in as much as the Group uses its generation of US Dollars to buy product in US Dollars. In addition, the Group mitigates its Euro exposure by entering into forward foreign exchange hedging contracts for the conversion of Euros to Sterling.
Scarcity of experienced technical personnel	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 hire and retain such individuals.	The Group is a leading music industry company in the UK and so attracts high-quality technical personnel. The Group also attracts graduates from music technology courses at local universities. The Group has wide-ranging share ownership incentives and other employment benefits to aid retention.
Intellectual property and data protection	The intellectual property and data developed by the Group is valuable and the Group could be harmed by infringement or loss.	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. The Group also aims to protect its intellectual property and pursues infringements.
Information security	Information security and cyber threats are currently a priority across all industries and remain a key Government agenda item.	The Group is undergoing a detailed review of IT systems to upgrade older elements. There has already been a widespread upgrade of core IT functionality and the improvement of back up and disaster recovery processes. 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 2016**

	Note	2016 £'000	2015 £'000
Revenue	1	54,301	48,029
Cost of sales		(33,439)	(29,381)
Gross profit		20,862	18,648
Administrative expenses		(13,722)	(12,328)
Adjusted EBITDA (non-GAAP measure)		10,249	9,302
Depreciation and amortisation		(2,572)	(2,278)
Non-underlying items		(537)	(704)
Operating profit		7,140	6,320
Finance income		325	164
Finance costs		(339)	-
Profit before tax		7,126	6,484
Income tax expense	5	(870)	(1,022)
Profit for the period from continuing operations		6,256	5,462
Earnings per share			
From continuing operations			
Basic (pence per share)	7	11.8	10.4
Diluted (pence per share)	7	10.7	9.3

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 AUGUST 2016**

	2016 £'000	2015 £'000
Profit for the period	6,256	5,462
<i>Items that may be reclassified subsequently to the income statement</i>		
Exchange differences on translation of foreign operations	45	-
Loss on forward foreign exchange contracts designated and effective as a hedging instrument	(1,143)	-
Tax on hedging instrument	229	-
Total comprehensive income for the period	5,387	5,462
Profit attributable to:		
Equity holders of the Company	5,387	5,462
	5,387	5,462

The notes form part of the financial statements.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 AUGUST 2016**

	Note	2016 £'000	2015 £'000
Assets			
Non-current assets			
Goodwill		419	419
Other intangible assets		4,373	3,522
Property, plant and equipment		1,575	1,323
Total non-current assets		6,367	5,264
Current assets			
Inventories		11,361	8,633
Trade and other receivables		11,224	7,737
Other investments including derivatives		-	223
Cash and cash equivalents	8	5,606	6,173
Total current assets		28,191	22,766
Total assets		34,558	28,030
Equity and liabilities			
Capital and reserves			
Share capital		58	58
Merger reserve		14,595	14,595
Merger difference reserve		(13,147)	(13,147)
Translation reserve		39	(6)
Hedging reserve		(914)	-
Treasury reserve		(5)	(6)
Deferred tax reserve		333	-
Retained earnings		22,918	16,984
Equity attributable to owners of the Company		23,877	18,478
Total equity		23,877	18,478
Current liabilities			
Trade and other payables		8,612	8,406
Current tax liabilities		644	403
Derivative financial instruments		1,143	-
Total current liabilities		10,399	8,809
Non-current liabilities			
Deferred tax		282	743
Total liabilities		10,681	9,552
Total equity and liabilities		34,558	28,030

The financial statements were approved by the Board of Directors and authorised for issue on 22 November 2016. They were signed on its behalf by:

Dave Froker
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 2016**

	Share capital £'000	Merger reserve £'000	Merger difference reserve £'000	Translation reserve £'000	Deferred tax reserve £'000	Hedging reserve £'000	Treasury share reserve £'000	Share based payment reserve £'000	Retained earnings ¹ £'000	Total £'000
Balance at 1 September 2014	52	-	1,448	(6)	-	-	-	140	11,574	13,208
Profit for the period	-	-	-	-	-	-	-	-	5,462	5,462
Other comprehensive income for the period	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-	-	-	-	5,462	5,462
Transactions with owners of the Company:										
Issue of ordinary shares	6	-	-	-	-	-	-	-	-	6
Ordinary shares issued to the EBT	-	-	-	-	-	-	(6)	-	-	(6)
Share for share exchange	-	14,595	(14,595)	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	122	-	122
Dividends paid	-	-	-	-	-	-	-	-	(314)	(314)
Balance at 1 September 2015	58	14,595	(13,147)	(6)	-	-	(6)	262	16,722	18,478
Profit for the period	-	-	-	-	-	-	-	-	6,256	6,256
Other comprehensive income for the period	-	-	-	45	-	(914)	-	-	-	(869)
Total comprehensive income for the period	-	-	-	45	-	(914)	-	-	6,256	5,387
Transactions with owners of the Company:										
Share-based payment deferred tax deduction in excess of remuneration expense	-	-	-	-	333	-	-	-	-	333
Share-based payment current tax deduction in excess of remuneration expense	-	-	-	-	-	-	-	-	363	363
Shares from EBT exercised	-	-	-	-	-	-	1	-	171	172
Share-based payments	-	-	-	-	-	-	-	120	-	120
Dividends paid	-	-	-	-	-	-	-	-	(976)	(976)
Balance at 31 August 2016	58	14,595	(13,147)	39	333	(914)	(5)	382	22,536	23,877

The notes form part of the financial statements.

1 Of the retained earnings totalling £22,536,000, £171,317 relates to the gain on exercise of share options from the EBT and is therefore non-distributable.

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 AUGUST 2016**

	Note	2016 £'000	2015 £'000
Net cash from operating activities	8	3,912	6,243
Investing activities			
Purchases of property, plant and equipment		(773)	(782)
Purchases of intangible assets		(2,902)	(2,778)
Proceeds from disposal of intangible assets		-	1
Net cash used in investing activities		(3,675)	(3,559)
Financing activities			
Issue of equity shares		172	-
Equity dividends paid	6	(976)	(314)
Net cash used in financing activities		(804)	(314)
Net (decrease)/increase in cash and cash equivalents		(567)	2,370
Cash and cash equivalents at beginning of year		6,173	3,803
Cash and cash equivalents at end of year		5,606	6,173

NOTES TO THE COMPANY ACCOUNTS

FOR THE YEAR ENDED 31 AUGUST 2016

These condensed preliminary financial statements of the Company and its subsidiaries ("the Group") for the year ended 31 August 2016 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 2015 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 2016 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 2016 audited accounts will be available on 22 November 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 REVENUE

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

	Year ended 31 August	
	2016	2015
	£'000	£'000
Continuing operations		
USA	21,382	18,498
Europe, Middle East and Africa	22,582	21,460
Rest of World	10,337	8,071
Consolidated revenue	54,301	48,029

2 BUSINESS SEGMENTS

Information reported to the Group's Chief Executive (who has been determined to be the Group's Chief Operating Decision Maker) for the purposes of resource allocation and assessment of segment performance is focused on the main product groups which Focusrite sells. The Group's reportable segments under IFRS 8 are therefore as follows:

Focusrite	– Sales of Focusrite branded products
Novation	– Sales of Novation branded products
Distribution	– Distribution of third-party brands including KRK speakers, Ableton, Stanton, Cerwin-Vega, Cakewalk 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 Group's Chief Executive 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 USA subsidiary, net of inter-Company commission income. Also included within central administration costs is the charge relating to the share option scheme of £120,000 for the year ended 31 August 2016 (2015: £122,000).

Segment net assets and other segment information

Management does not make use of segmental data relating to net assets and other balance sheet information for the purposes of monitoring segment performance and allocating resources between segments.

Accordingly, other than the analysis of the Group's non-current assets by geographical location shown below, this information is not available for disclosure in the consolidated financial information.

	Year ended 31 August	
	2016	2015
	£'000	£'000
Revenue from external customers		
Focusrite	37,563	31,187
Novation	13,683	14,169
Distribution	3,055	2,673
Total	54,301	48,029
Segment profit		
Focusrite	17,159	14,221
Novation	6,743	6,842
Distribution	917	846
	24,819	21,909
Central distribution costs and administrative expenses before non-underlying items	(17,142)	(14,885)
Adjusted operating profit before non-underlying items	7,677	7,024
Non-underlying items	(537)	(704)
Operating profit	7,140	6,320
Finance income	325	164
Finance costs	(339)	-
Profit before tax	7,126	6,484
Tax	(870)	(1,022)
Profit after tax	6,256	5,462

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

	2016	2015
	£'000	£'000
Non-current assets		
USA	60	29
Europe, Middle East and Africa	5,602	4,683
Rest of World	705	552
Total non-current assets	6,367	5,264

Information about major customers

Included in revenues shown for 2016 is £21.3 million (2015: £18.5 million) attributed to the Group's largest customer. Amounts owed at end of year is £5.2 million (2015: £2.7 million).

3 PROFIT FOR THE YEAR

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

		Year ended 31 August	
	Note	2016	2015
		£000	£000
Net foreign exchange gains	8	(96)	(53)
Research and development costs		779	743
Non-underlying costs	4	537	704
Depreciation and impairment of property, plant and equipment		521	374
Profit on disposal of property, plant and equipment		-	(1)
Amortisation of intangibles		2,051	1,902
Operating lease rental expense		183	156
Cost of inventories recognised as an expense		27,955	25,606
Staff costs		7,505	6,059
Impairment loss recognised on trade receivables		4	12
Change in fair value of financial instruments		223	(105)
Share-based payments charge to profit and loss		120	122

4 NON-UNDERLYING ITEMS

During the year ended 31 August 2016, the Group incurred one-off litigation costs relating to intellectual property and distribution contracts, totalling £0.5 million, which were charged to the income statement. This is stated net of a receipt of £0.25m on a legacy dispute, which had previously been written off. In December 2014, the Group floated on the AIM. Non-recurring IPO related costs totalled £0.7 million, which were charged to the income statement for the year ended 31 August 2015.

5 TAX

	Year ended 31 August	
	2016	2015
	£'000	£'000
Corporation tax charges:		
Overprovision in prior year	(231)	(69)
Current year	1,000	878
	769	809
Deferred taxation		
Current year	101	213
	870	1,022

Corporation tax is calculated at 20.00% (2015: 20.58%) of the estimated taxable profit for the year. Taxation for the USA subsidiary is 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	
	2016	2015
	£'000	£'000
Current taxation		
Profit before tax on continuing operations	7,126	6,484
Tax at the UK corporation tax rate of 20.00% (2015: 20.58%)	1,425	1,334
Effects of:		
Expenses not deductible for tax purposes	480	564
Income not taxable for tax purposes	(1)	-
Research and development tax credit	(706)	(816)
Overseas tax	(8)	36
Prior period adjustment - current tax	(231)	(69)
Prior period adjustment - deferred tax	(12)	-
Effect of change in standard rate of corporation tax	-	(27)
Share options expense deductible - current tax	(25)	-
Share options expense deductible - deferred tax	(52)	-
Current tax charge for period	870	1,022

6 DIVIDENDS

The following equity dividends have been declared.

	Year to	Year to
	31 August	31 August
	2016	2015
Dividend per qualifying ordinary share	1.95p	1.8p

During the year, the Company paid an interim dividend in respect of the year ended 31 August 2016 of 0.65 pence per share.

On 22 November 2016, the Directors recommended a final dividend of 1.3 pence per share (2015: 1.2 pence per share), making a total of 1.95 pence per share for the year (2015: 1.8 pence per share).

7 EARNINGS PER SHARE

Reported EPS

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

Earnings	Year ended 31 August	
	2016	2015
	£'000	£'000
Earnings for the purposes of basic and diluted EPS being net profit for the period	6,256	5,462

	Year ended 31 August	
	2016	2015
	Number	Number
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic EPS calculation	53,207	52,399
Effect of dilutive potential ordinary shares:		
EMI Scheme and unapproved share option plan	5,297	6,416
Weighted average number of ordinary shares for the purposes of diluted EPS calculation	58,504	58,815

EPS	Pence	Pence
Basic EPS	11.8	10.4
Diluted EPS	10.7	9.3

At 31 August 2016, the total number of ordinary shares issued and fully paid was 58,075,000. This included 4,494,504 (2015: 5,676,000) 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 total number of shares in issue (58,075,000) less the number of shares held by the EBT (4,494,504). 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.

Adjusted EPS

Earnings	Year ended 31 August	
	2016	2015
	£'000	£'000
Profit for the financial period	6,256	5,462
Non-underlying items	537	704
Tax on non-underlying items	(107)	-
Total underlying profit for adjusted EPS calculation	6,686	6,166

Number of shares	Year ended 31 August	
	2016	2015
	Number '000	Number '000
Weighted average number of ordinary shares for the purposes of basic EPS calculation	53,207	52,399
Effect of dilutive potential ordinary shares:		
EMI Scheme and unapproved share option plan	5,297	6,416
Weighted average number of ordinary shares for the purposes of diluted EPS calculation	58,504	58,815

EPS	Pence	Pence
Adjusted basic EPS	12.6	11.8
Adjusted diluted EPS	11.4	10.5

8 NOTES TO THE CASH FLOW STATEMENT

	Note	2016	2015
		£'000	£'000
Profit for the financial year		6,256	5,462
Adjustments for:			
Income tax expense	5	870	1,022
Net interest		14	(164)
(Profit) on disposal of property, plant and equipment		-	(1)
Amortisation of intangibles		2,051	1,902
Depreciation of property, plant and equipment		521	368
Share-based payments charge		120	122
Operating cash flows before movements in working capital		9,832	8,711
Increase in trade and other receivables		(3,487)	(1,370)
Increase in inventories		(2,728)	(2,037)
Increase in trade and other payables		206	1,718
Operating cash flows before interest and tax paid		3,823	7,022
Net interest (paid)/received		(111)	6
Income taxes paid		(165)	(838)
Cash generated by operations		3,547	6,190
Net foreign exchange movements		365	53
Net cash from operating activities		3,912	6,243