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Focusrite Plc
("the Company" or "the Group")
Final Results for the Year Ended 31 August 2017

Focusrite Plc (AIM: TUNE), the global music and audio products company, announces Final Results for the year ended 31 August 2017.

Financial highlights

- Group revenue grew by 21.6% (constant currency³: 13%) to £66.1 million (FY16: £54.3 million)
- Adjusted EBITDA¹ grew by 27.9% to £13.1 million (FY16: £10.2 million)
- Operating profit grew 32.6% to £9.5 million (FY16: £7.1 million)
- Profit before tax grew 33.5% to £9.5 million (FY16: £7.1 million)
- Basic earnings per share grew 30.5% to 15.4p (FY16: 11.8p)
- Adjusted² diluted earnings per share grew 29.8% to 14.8p (FY16: 11.4p)
- Net cash of £14.2 million (FY16: £5.6 million)
- Final dividend of 1.95p recommended, resulting in 2.7p for the year, up 38% on prior year

Operational highlights

- Strong growth continued across both our major segments, Focusrite and Novation
- In Focusrite, Scarlett, Clarett and RedNet ranges all grew, leading to total segment revenue growth of 18.6%
- In Novation, the growth of Launchpad and Launchkey both accelerated resulting in segment revenue growth of 37.8%
- All major geographic regions grew, including the USA, our largest market, where revenue growth was 30.9% in the year
- Ten new products launched over the year with positive early industry and user feedback
- Continued investment in the Software division has generated continued growth - now three apps with approximately 550,000 active users
- e-commerce website now established and delivering products globally

1 Comprising of earnings adjusted for interest, taxation, depreciation, amortisation and non-underlying items (see page 14).

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

3 Constant currency revenue growth is calculated by taking the sterling value of FY17 revenue; converting to FY16 annual average exchange rates and comparing with the reported revenue for FY16. In addition, all foreign exchange movements disclosed in revenue are excluded from both years.

Commenting on the results, Executive Chairman Phil Dudderidge said:

"I am delighted Focusrite Plc has delivered another strong year of growth. Our foundations as a company that has a history at the leading edge of music technology innovation, with an established, global customer base for its market-leading brands and a strong culture, make us well placed for further growth."

Commenting on current trading, Chief Executive Officer Tim Carroll said:

"Since the year end, revenue and cash have both grown further. We continue to see strong market acceptance across our expanding portfolio and our new product pipeline continues to grow. Our solid momentum has continued into the current year and we continue to look forward with confidence."

Availability of Annual Report and Notice of AGM

The Annual Report and Accounts for the financial year ended 31 August 2017 and notice of the Annual General Meeting ("AGM") of Focusrite will be posted to shareholders by 5 December 2017 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 2018.

The timetable for the final dividend is as follows:

28 December 2017	Ex-dividend Date
29 December 2017	Record Date
10 January 2018	AGM to approve the recommended final dividend
19 January 2018	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)

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.

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 grooveboxes to industry-shaping controllers and inspirational music-making apps.

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

Chairman's Statement

I am very pleased to report that FY17 has proved to be another successful year, exceeding our expectations for revenue, at £66.1million (+21.6%), profit and cash flow. The Company's products have continued to grow market share in our established and growth markets. Revenue and profits have been boosted by the strengthening of the Euro and US Dollar but, even on a constant currency basis, the Company has enjoyed excellent growth.

This is our first set of results with Tim Carroll as CEO, having joined the Company in January 2017. He has successfully established himself with the management team and the Company more broadly and is building on Focusrite's strong foundations. Tim enjoyed almost 20 years with Avid Technology Inc, a respected business in our marketplace, in global sales roles and latterly heading the audio division, as a result of which he has an unmatched experience of the markets that Focusrite seeks to serve, from the professional to amateur.

FY17 has seen continued development of our sales channels. I am particularly pleased with the progress of our e-commerce platform, only in its second year and which is now offering the Company's products globally. Sales in the Far East, notably China, continue to grow faster than most other regions of the world. In response to this demand, the Company has established a Hong Kong office to manage our third-party distributors and marketing in the Asia-Pacific region and to provide customer support to Asian customers. This office continues to grow and, importantly, enables us to provide support to customers who use our products all over the world, 24/7. Looking forward, new distribution initiatives in Japan promise to underpin growth prospects in this important but challenging market.

Last year, I reported on the launch of the second generation of Focusrite's Scarlett range of audio interfaces. Scarlett is the market-leading range globally and our results very much reflect the outstanding success and growth of this range, that provides musicians and the wider recording community with outstanding performance and reliability. Focusrite Clarett is a premium range of interfaces for those whose recordings are more likely to have commercial potential.

Our Novation brand of musical instruments comprising synthesisers, keyboard controllers and the Launchpad grid controller family enjoyed a 37.8% uplift in demand compared with a flat 2016. A new flagship synthesiser, Peak, was launched to much acclaim.

Focusrite continues to build demand for products designed for a professional audience and business enterprises, namely the RedNet and Red ranges. A Focusrite Pro team has been formed to develop the professional and commercial sales channels, as well as bringing better focus to product development and marketing to these specialist vertical markets that include broadcast, post-production, education and entertainment facilities. This market segment is seen as an exciting growth opportunity where our investment in this segment over recent years is expected to pay off handsomely.

I am delighted Focusrite Plc has delivered another strong year of growth. Our foundations as a company that has a history at the leading edge of music technology innovation, with an established, global customer base for its market-leading brands and a strong culture, make us well placed for further growth. The Company has no debt, continues to be highly cash-generative and continues to consider acquisition opportunities that would complement the existing business.

I would like to take this opportunity to thank our employees, manufacturing partners, distribution partners and professional advisers for their contributions to our success.

Phil Dudderidge

Founder and Executive Chairman

Chief Executive's Statement

Introduction

This is my first full year report, having joined the Company in January 2017, and I am delighted to update shareholders on another year of operational and financial success. It has been another busy and productive year, during which we have expanded our product portfolio; launched two new brands; and refined our growth strategy to optimise our expansion opportunities now and for the future.

Focusrite is a business I knew well before I joined; with a well-earned reputation for high-quality products and a history of innovation and disruption, and I was honoured and proud to be asked to lead the Company into its next phase of growth. One of the primary factors that led to my decision to join the Company was the passion that came through from the employees. Many of our people are musicians, audio engineers, or DJs themselves and they use our products in real-world environments every week, bringing to work a real drive to push the boundaries of modern-day audio production. Our employee footprint continues to expand in our High Wycombe, London, Los Angeles and Hong Kong offices, as well as with remote employees all over the globe. It is a great pleasure and privilege to help guide and lead them and I thank them for their hard work and dedication.

Overview

The Group's products are now 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 areas where localisation is a factor, a hybrid approach in the USA utilising a distributor with our own demand generation team, and direct business to consumer with our own e-commerce store and in-app software purchases.

We sold approximately 800,000 physical products to end-users last year, and our music creation apps were downloaded 2.7 million times with around 700,000 in-app customer transactions. Our manufacturing partners are located in South China and we use third-party logistics support. We employ around 190 people in the UK, USA, Germany and Hong Kong.

This is a business of considerable scale with scope for further growth and our market position, products, people and customer base are the envy of many in the industry.

The market

The global audio production market continues to grow and we believe we remain well poised to increase our market share with existing products and also to exploit opportunities to expand into adjacent product categories that would make commercial sense and are a strategic fit for our existing business. This can be done organically and, when it makes commercial and economic sense, by acquisition.

For many personal and professional audio recording customers, Focusrite technology and solutions are a cornerstone of their set-ups and creative workflows. We know that puts us in a unique position to expand our offerings and participate in more of the economic value chain. Alongside that, we recognise the opportunity to continue to make audio recording technology easier to use and more accessible to a larger addressable market.

Operating review

This year has seen further operational progress and this has translated into financial success with careful management of our cost base and a focus on cash generation. Revenues grew by 21.6% to £66.1 million, delivering an operating profit of £9.5 million, representing year-on-year growth of 32.6%. These results were materially ahead of forecasts and represent a very pleasing outcome for the Group.

This positive performance has been driven by a number of factors, including a wider market acceptance and growth of share in many of our core products; along with a suite of new innovative offerings, giving us more depth to our portfolio and the opportunity to sell more to our customer base.

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.

Focusrite

Within Focusrite, our Scarlett, Clarett and RedNet ranges all grew, leading to total segment revenue growth of 18.6%. In each category we increased market share and experienced growth beyond the industry norms.

Sales of our second generation Scarlett USB audio interface range, upgraded and launched in June last year, were particularly strong. The Scarlett family has earned the reputation as a best-in-class, premium solution at affordable pricing. This product line remains the number one selling audio interface product in the world.

The Clarett range continues to set new price/performance standards in our mid-range interface offerings and with an advanced set of features catered to creative professionals, we are very pleased to see that Clarett has been warmly received and enjoyed numerous accolades from the industry.

Our commercial and pro-audio range, led by RedNet, is gaining momentum as applications for its use and potential customers grow, especially in post-production, education and broadcast markets. This year we have witnessed some of the top production facilities in the world transition their entire infrastructure to RedNet and reap numerous benefits in efficiency, costs and productivity.

During the year we also launched the Focusrite Pro brand to support our growing Red/RedNet business and bring key sales talent and focus to this market. This additional investment will continue next year. We believe that our portfolio of professional audio over internet protocol ('AOIP') solutions are well poised to become industry standards in post-production, broadcast, installed and live sound.

Novation

The Novation segment now consists of Novation and Ampify, the Group's own software brand.

Launchpad, Launchkey, and the synthesiser product categories all experienced accelerated sales growth, with overall growth in this business segment of 37.8%.

Wider market acceptance of grid-based controllers in the electronic music space, coupled with larger penetration from online distribution channels such as Amazon, has driven demand for Launchpad. This product range experienced significant worldwide uplift in demand with year-on-year sales volume growth of 39.0%.

Our Launchkey family of keyboard controllers also enjoyed significant uplift in worldwide demand, with its intuitive feature set and extensive integrated control features with top music-making software such as Ableton Live.

Our new flagship synthesiser, Peak, has seen widespread adoption within the professional music community and won numerous accolades from the industry as a true next-generation synthesiser; building off the legacy of the Novation brand and its many famous earlier synthesiser products.

During the year we rebranded our apps division to Ampify: a brand on which we will continue to develop powerful audio software tools for new customers and our existing customers alike. We are investing substantially in Ampify, as we aim to grow the Company's own software capability. This investment is starting to be rewarded with operational progress and we now have three music-making apps with around 550,000 active users. Revenues are still small when seen as a percentage of total Group revenue, but growing significantly year-on-year as we continue to increase our library of in-app purchases for these customers. Our apps consistently rank in the top ten for music creation tools on Apple's app store and are currently displayed in Apple stores worldwide. We recently launched Groovebox – 'a new beats and synth music studio' for iPad and iPhone – and to date it has had over 200,000 downloads and is growing fast.

Innovation

Innovation is key driver of growth and we continue to spend around 6% to 7% of revenue on research and development so as to provide a constant stream of new and relevant products for our various customer channels.

During the year we launched eight new hardware and two new software products, including: Red 8 Pre, Clarett OctoPre, Scarlett OctoPre, Scarlett OctoPre Dynamic, iTrack One Pre and Circuit Components update.

These new products are across different price segments and target customer markets, giving us further penetration and reach. Feedback from the consumer, retailer and distribution channels has been positive and acceptance so far has been pleasing.

We continue to enhance our offerings with improved drivers, new tool sets and capabilities that make our solutions easier to install and use, netting us industry-leading Net Promoter Scores and overall customer experience statistics.

Additionally, we have focused some of our development resources on the 'out-of-the-box' experience for new customers, as we believe that ensuring customers have a great first experience with our products is paramount to our overall success and growth strategy.

Geographic overview

I am pleased to report that our success this past year was truly global and sales in all major regions grew.

The USA finished with a 30.9% rise in revenue when compared with last year. Europe experienced 11.4% growth. Finally, the Rest of the World (incorporating Asia, Latin America and Canada) finished the year with 24.9% year-on-year growth.

The USA market, the largest market for our portfolio and currently 42% of total Group sales, remains a key focus for our sales efforts and we continue to expand the team in our Los Angeles office.

In Europe, where we saw increased competition between the major continental resellers, our growth was lower than our other regions but still ahead of industry averages in our segment.

Within the Rest of the World, Asia-Pacific sales were strong across most countries, especially in China, and our Hong Kong office is now fully functional and integrated with our Company systems. Additionally, we are investing in more sales talent to scale for what we believe is still a large opportunity in this region.

Finally, Latin America and Canada both had healthy growth and we will continue to invest in resources and tools to grow these regions into this next year and beyond.

Distribution and logistics initiatives

Focusrite's distribution of adjacent products, such as KRK monitors and sE Electronics microphones, remains a small overall proportion of Group revenue. It remains important to us as it offers add-on products within the music-making industry and provides us with invaluable market feedback, insight and knowledge.

e-commerce initiatives

The Group's e-commerce store, which launched in March last year, accounted for over 1% of the Group's revenue and this continues to improve. With a global presence but specific emphasis on markets where localised content, language support and swift delivery to end-users are key to success, we believe this segment will grow further.

Summary and outlook

We are focused on three core goals: growing our customer base; increasing the lifetime value of our customers; and expanding into new market segments both from a price and product perspective. To achieve this we will continue to innovate, disrupt, grow our audience and ultimately continue in our tradition of making the creative process of music creation and audio recording easier for our customers.

Although competitive pressures remain strong, changes in technology and new customer requirements can emerge quickly, and macroeconomic and political factors affect our end customers and distributors alike, we remain committed to keeping abreast of these risks in order to continue to deliver strong growth.

Since the year end, revenue and cash have both grown further. We continue to see strong market acceptance across our expanding portfolio and our new product pipeline continues to grow. Our solid momentum has continued into the current year and we continue to look forward with confidence.

Tim Carroll

Chief Executive Officer

Financial Review

Overview

The Group has had an excellent year, with revenue growth of 21.6%, adjusted EBITDA growth of 27.9% and adjusted diluted earnings per share up by 29.8%. In addition, the Group has managed working capital tightly, leading to good cash generation.

Income statement

Revenue

Revenue grew from £54.3 million to £66.1 million, a rise of 21.6%. Since 2009, when the Group revenue was £9.1 million, the Group has grown revenue every year at a growth rate of at least 10%.

The largest segment, Focusrite, grew by 18.6%, from £37.6 million to £44.6 million, as the second generation of the Scarlett range continued to gain market share following its launch in June 2016. Scarlett is approximately three-quarters of the Focusrite segment by revenue and the Group has developed related ranges of products such as Clarett and RedNet, which are diversifying the Focusrite segment as they also grow and establish themselves in their markets.

The Novation segment consists of Novation and Ampify, the Group's new software brand. The combined revenue was £18.9 million, up 37.8% on £13.7 million last year. The Novation segment is relatively diverse: the largest range is Launchpad, which is approximately half of the segment revenue and, for which, demand grew strongly. Approximately a quarter of segment revenue is the Launchkey range and the remainder is split between synthesisers, Circuit and the remaining products.

In the UK, the Group distributes products such as microphones and monitors manufactured by other organisations. Revenue was £2.6 million, down 13.6% from £3.1 million in 2016.

All regions grew. Regionally, the USA is the largest market in the music industry and the largest market for the Group's products. Revenue in the USA grew 30.9% (constant currency: 18%) to £28.0 million, Europe grew 11.4% (constant currency: 7%) to £25.2 million and the Rest of the World grew by 24.9% (constant currency: 13%) to £12.9 million. The primary drivers of growth in the USA were the further consolidation of the Scarlett range in the market and strong growth of Novation. In Europe, there was increased competition between the major continental resellers which held back growth. In the Rest of the World, the major portion of the revenue is in Asia, which continues to grow as the new regional sales office in Hong Kong becomes more established.

Exchange rates were important this year. In essence, in FY16 there were ten months 'pre-Brexit' and two months post. Therefore, there was a more pronounced effect this year of the stronger US Dollar and Euro. At constant currency, revenue grew by 13%.

Gross profit

Gross profit increased to £26.4 million, up from £20.9 million in FY16. This represented a gross margin of 39.9% (FY16: 38.4%). This growth in gross margin was driven by several factors: closer attention paid to the fluctuations of market prices and then management of discounts given to resellers; the stronger Euro and a minor range mix impact.

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 £16.9 million, up from £13.7 million last year. Directionally, the greater growth was on sales and marketing as the Group invested, via the profit and loss account, in key initiatives such as the Asia office and e-commerce.

Adjusted EBITDA

Adjusted EBITDA increased by 27.9% to £13.1 million (FY16: £10.2 million).

In FY17, there were no non-underlying costs. In FY16, there was a non-underlying cost of £0.5 million due to legal disputes relating to intellectual property and distribution contracts, which have no significant effect on our ongoing business. All of these legal disputes have now been resolved, with no further cost to the Group.

Income statement

	2017	2017	2017	2016	2016	2016
	£m	£m	£m	£m	£m	£m
	Reported	Non-underlying	Adjusted	Reported	Non-underlying	Adjusted
Revenue	66.1	-	66.1	54.3	-	54.3
Cost of sales	(39.7)	-	(39.7)	(33.4)	-	(33.4)
Gross profit	26.4	-	26.4	20.9	-	20.9
Administrative expenses	(16.9)	-	(16.9)	(13.8)	0.5	(13.3)
Operating profit	9.5	-	9.5	7.1	0.5	7.6
Net finance income	(0.0)	-	(0.0)	(0.0)	-	(0.0)
Profit before tax	9.5	-	9.5	7.1	0.5	7.6
Income tax expense	(0.9)	-	(0.9)	(0.8)	(0.1)	(0.9)
Profit for the period	8.6	-	8.6	6.3	0.4	6.7

	2017	2017	2017	2016	2016	2016
	£m	£m	£m	£m	£m	£m
	Reported	Non-underlying	Reported	Reported	Non-underlying	Adjusted
Operating profit	9.5	-	9.5	7.1	0.5	7.6
Add – amortisation of intangible assets	2.9	-	2.9	2.1	-	2.1
Add – depreciation of tangible assets	0.7	-	0.7	0.5	-	0.5
EBITDA	13.1	-	13.1	9.7	0.5	10.2

Foreign exchange and hedging

The Brexit vote in June 2016 changed the exchange rates substantially but there has been greater stability since then. Therefore, the average exchange rates show a strengthening of US Dollar and Euro, whereas the year-end rates are more similar.

Exchange rates	2017	2016
Average		
USD:GBP	1.27	1.45
EUR:GBP	1.16	1.29
Year end		
USD:GBP	1.29	1.31
EUR:GBP	1.09	1.18

The Group buys product in US Dollars and approximately 60% of its revenue is in US Dollars so there is a natural hedge. Therefore, the US Dollar strengthening from \$1.45 to \$1.27 increased revenue but had little effect on gross profit.

Approximately a quarter of revenue is in Euro but little cost. The Group enters into forward contracts to convert Euro to GBP. In FY16, approximately three-quarters of Euro flows were hedged at €1.39, thereby creating a blended exchange rate of approximately €1.37. In FY17, the equivalent hedging contracts were at €1.28 (a blended rate of approximately €1.26). For FY18, the equivalent rate for the forward contracts is €1.12.

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

Corporation tax

Corporation tax as a proportion of profit before tax was 10.1% (FY16: 12.2%). The effective tax rate is lower than the headline rate, largely due to enhanced tax relief on R&D, a small element of vesting share options and a lower than expected payment in the prior year. In addition, the UK headline tax rate has been reduced by 1 percentage point to 19% within the last year.

Earnings per share

The basic earnings per share for the year was 15.4 pence, up 30.5% from 11.8 pence in FY16. This rise was driven largely by the rise in profit and the fact that there were no non-underlying items in FY17. The more comparable measure, excluding non-underlying items and including the small dilutive effect of share options, is adjusted diluted earnings per share. This was 14.8 pence, up 29.8% from 11.4 pence in FY16.

Earnings per share

	2017	2016	Growth
	p	p	%
Basic	15.4	11.8	30.5%
Diluted	14.8	10.7	38.3%
Adjusted basic	15.4	12.6	22.2%
Adjusted diluted	14.8	11.4	29.8%

Balance sheet

	2017	2016
	£m	£m
Non-current assets	6.3	6.4
Current assets		
Inventories	8.3	11.4
Trade and other receivables	13.0	11.2
Cash	14.2	5.6
Current liabilities	(8.7)	(10.4)
Non-current liabilities	(0.2)	(0.3)
Net assets	32.9	23.9

Cash flow

	2017	2016
	£m	£m
Free cash flow ¹	9.4	0.2
Add – non-underlying cash outflows	0.1	0.2
Underlying free cash flow	9.5	0.4

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 R&D costs. Between 70% and 80% of R&D 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 fell from 22.4% of revenue to 19.1%. The main driver of this reduction was stock, which was reduced from £11.4 million to £8.3 million. The reduction in stock was achieved through lower levels of safety stock and the rising sales of new products, launched in FY15 and FY16, for which the Group had bought larger initial quantities to protect against possible 'stock-outs' should demand have risen more quickly than expected. As commented on in last year's Annual Report, stock quantities have been reduced as the demand pattern for these products has become more predictable. There have been no significant changes in payment terms relating to either customers or suppliers.

Cash flow

Cash at the year end was £14.2 million, up from £9.4 million at the half year and £5.6 million at 31 August 2016, driven by the higher profit and lower working capital explained previously. Free cash flow was strong, at £9.4 million (FY16: £0.2 million), which represented 14.3% of revenue (FY16: 0.4%). Finally, the Group has a £10 million revolving credit facility with HSBC.

Dividend

The Board is proposing a final dividend of 1.95 pence per share (FY16 final dividend: 1.3 pence), which would result in a total of 2.7 pence per share for the year (FY16: 1.95 pence). At this level, the dividend is covered approximately 5.5 times by earnings. This represents the first step towards an ongoing target dividend cover of between 4 and 5 times. The Group

is focused on, and investing in, future growth and therefore maintains a strong dividend cover whilst maintaining a sustainable and progressive annual dividend.

Going concern

As required, the Board have considered the ability of the Group to continue as a going concern. The Board reviewed the cash position, the management of working capital, the strategic plans, the forecast cash flow and the borrowing arrangements and capacity. The Board have concluded that the Group will remain as a going concern and that this Annual Report should be prepared on that basis.

Summary

The Group has had an excellent year. Revenue has grown by 21.6%, adjusted EBITDA by 27.9%, adjusted diluted earnings per share by 29.8% and the cash balance has increased from £5.6 million to £14.2 million. The Board remains focused on extending our track record of growth in future years.

Jeremy Wilson

Chief Financial Officer

21 November 2017

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 the 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 R&D 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. The Group maintains appropriate levels of insurance to mitigate the financial impacts of a failure of one of its suppliers. 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 or distributor, or even the failure of a major customer of that distributor, could significantly and adversely affect the Group's business.	In cases where there is a large distributor in a significant market (e.g. the USA distributor purchased £28 million of stock in FY17), the Group also maintains relationships 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.

Risk area	Description	Mitigation
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 US Dollar 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 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 and the improvement of backup and disaster recovery processes. The Group has moved core ERP systems to cloud with robust SLAs in place to ensure data availability and security. 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 2017

	Note	2017 £'000	2016 £'000
Revenue	1	66,055	54,301
Cost of sales		(39,704)	(33,439)
Gross profit		26,351	20,862
Administrative expenses		(16,881)	(13,722)
Adjusted EBITDA (non-GAAP measure)		13,109	10,249
Depreciation and amortisation		(3,639)	(2,572)
Non-underlying items		-	(537)
Operating profit		9,470	7,140
Finance income		86	325
Finance costs		(44)	(339)
Profit before tax		9,512	7,126
Income tax expense	5	(959)	(870)
Profit for the period from continuing operations		8,553	6,256
Earnings per share			
From continuing operations			
Basic (pence per share)	7	15.4	11.8
Diluted (pence per share)	7	14.8	10.7

Consolidated Statement of Comprehensive Income

For the year ended 31 August 2017

	2017 £'000	2016 £'000
Profit for the period (attributable to equity holders of the Company)	8,553	6,256
<i>Items that may be reclassified subsequently to the income statement</i>		
Exchange differences on translation of foreign operations	(8)	45
Profit/(loss) on forward foreign exchange contracts designated and effective as a hedging instrument	659	(1,143)
Tax on hedging instrument	(134)	229
Total comprehensive income for the period	9,070	5,387
Total comprehensive income attributable to:		
Equity holders of the Company	9,070	5,387
	9,070	5,387

Consolidated Statement of Financial Position

As at 31 August 2017

	2017	2016
	£'000	£'000
Assets		
Non-current assets		
Goodwill	419	419
Other intangible assets	4,544	4,373
Property, plant and equipment	1,369	1,575
Total non-current assets	6,332	6,367
Current assets		
Inventories	8,334	11,361
Trade and other receivables	12,952	11,224
Cash and cash equivalents	14,174	5,606
Total current assets	35,460	28,191
Total assets	41,792	34,558
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	31	39
Hedging reserve	(389)	(914)
Treasury reserve	(3)	(5)
Retained earnings	31,739	23,251
Equity attributable to owners of the Company	32,884	23,877
Total equity	32,884	23,877
Current liabilities		
Trade and other payables	7,720	8,612
Current tax liabilities	459	644
Derivative financial instruments	484	1,143
Total current liabilities	8,663	10,399
Non-current liabilities		
Deferred tax	245	282
Total liabilities	8,908	10,681
Total equity and liabilities	41,792	34,558

Consolidated Statement of Changes in Equity

For the year ended 31 August 2017

	Share capital £'000	Merger reserve £'000	Merger difference reserve £'000	Translation reserve £'000	Hedging reserve £'000	Treasury share reserve £'000	Retained earnings ¹ £'000	Total £'000
Balance at 1 September 2015	58	14,595	(13,147)	(6)	-	(6)	16,984	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 1 September 2016	58	14,595	(13,147)	39	(914)	(5)	23,251	23,877
Profit for the period	-	-	-	-	-	-	8,553	8,553
Other comprehensive income for the period	-	-	-	(8)	525	-	-	517
Total comprehensive income for the period	-	-	-	(8)	525	-	8,553	9,070
Transactions with owners of the Company:								
Share-based payment deferred tax deduction in excess of remuneration expense	-	-	-	-	-	-	114	114
Share-based payment current tax deduction in excess of remuneration expense	-	-	-	-	-	-	558	558
Shares from EBT exercised	-	-	-	-	-	2	256	258
Share-based payments	-	-	-	-	-	-	145	145
Dividends paid	-	-	-	-	-	-	(1,138)	(1,138)
Balance at 31 August 2017	58	14,595	(13,147)	31	(389)	(3)	31,739	32,884

¹ Of the retained earnings totalling £31,739,000 (2016: £23,251,000), £427,111 (2016: £171,317) relates to the gain on exercise of share options from the EBT and is therefore non-distributable.

The notes form part of the financial statements.

Consolidated Cash Flow Statement

For the year ended 31 August 2017

	Note	2017 £'000	2016 £'000
Operating activities			
Profit for the financial year		8,553	6,256
Adjustments for:			
Income tax expense	5	959	870
Net interest		(42)	14
Profit on disposal of property, plant and equipment	3	(8)	-
Amortisation of intangibles	3	2,950	2,051
Depreciation of property, plant and equipment	3	689	521
Share-based payments charge	3	145	120
Operating cash flows before movements in working capital		13,246	9,832
Increase in trade and other receivables		(1,728)	(3,487)
Decrease/(increase) in inventories		3,027	(2,728)
(Decrease)/increase in trade and other payables		(892)	206
Operating cash flows before interest and tax paid		13,653	3,823
Net interest paid		(42)	(111)
Income taxes paid		(633)	(165)
Cash generated by operations		12,978	3,547
Net foreign exchange movements	3	84	365
Net cash from operating activities		13,062	3,912
Investing activities			
Purchases of property, plant and equipment		(493)	(773)
Purchases of intangible assets		(3,121)	(2,902)
Net cash used in investing activities		(3,614)	(3,675)
Financing activities			
Issue of equity shares		258	172
Equity dividends paid	6	(1,138)	(976)
Net cash used in financing activities		(880)	(804)
Net increase/(decrease) in cash and cash equivalents		8,568	(567)
Cash and cash equivalents at beginning of year		5,606	6,173
Cash and cash equivalents at end of year		14,174	5,606

Notes to the Final Results

For the year ended 31 August 2017

These condensed preliminary financial statements of the Company and its subsidiaries ("the Group") for the year ended 31 August 2017 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 2016 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 2017 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 2017 audited accounts will be available on 21 November 2017 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	
	2017	2016
	£'000	£'000
Continuing operations		
USA	27,990	21,382
Europe, Middle East and Africa	25,153	22,582
Rest of the World	12,912	10,337
Consolidated revenue	66,055	54,301

2 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. The Group's reportable segments under IFRS 8 are therefore as follows:

Focusrite	– Sales of Focusrite or Focusrite Pro branded products
Novation	– Sales of Novation or Ampify branded products
Distribution	– Distribution of third-party brands including KRK, 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 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 USA subsidiary, net of inter-Company commission income. Also included within central administration costs is the charge relating to the share option scheme of £145,000 for the year ended 31 August 2017 (2016: £120,000).

	Year ended 31 August	
	2017 £'000	2016 £'000
Revenue from external customers		
Focusrite	44,552	37,563
Novation	18,862	13,683
Distribution	2,641	3,055
Total	66,055	54,301
Segment profit		
Focusrite	20,221	17,159
Novation	9,198	6,743
Distribution	711	917
	30,130	24,819
Central distribution costs and administrative expenses before non-underlying items	(20,660)	(17,142)
Adjusted operating profit before non-underlying items	9,470	7,677
Non-underlying items	-	(537)
Operating profit	9,470	7,140
Finance income	86	325
Finance costs	(44)	(339)
Profit before tax	9,512	7,126
Tax	(959)	(870)
Profit after tax	8,553	6,256

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

	2017		2016	
	£'000		£'000	
Non-current assets				
USA	52		60	
Europe, Middle East and Africa	5,676		5,602	
Rest of the World	604		705	
Total non-current assets	6,332		6,367	

Information about major customers

Included in revenues shown for 2017 is £28.0 million (2016: £21.4 million) attributed to the Group's largest customer. Amounts owed at the end of the year were £6.8 million (2016: £5.2 million).

3 PROFIT FOR THE YEAR

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

	Note	Year ended 31 August	
		2017 £000	2016 £000
Net foreign exchange gains		(84)	(96)
Research and development costs		1,120	779
Non-underlying costs		-	537
Depreciation and impairment of property, plant and equipment		689	521
Profit on disposal of property, plant and equipment		(8)	-
Amortisation of intangibles		2,950	2,051
Operating lease rental expense		306	183
Cost of inventories recognised as an expense		35,493	27,955
Staff costs		8,731	7,505
Impairment loss recognised on trade receivables		(3)	4
Change in fair value of financial instruments		-	223
Share-based payments charge to profit and loss		145	120

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 £0.25 million on a legacy dispute, which had previously been written off.

There are no non-underlying items for the year ended 31 August 2017.

5 TAX

	Year ended 31 August	
	2017 £'000	2016 £'000
Corporation tax charges:		
Over provision in prior year	(13)	(231)
Current year	983	1,000
	970	769
Deferred taxation		
Current year	(11)	101
	959	870

Corporation tax is calculated at 19.58% (2016: 20.00%) 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	
	2017 £'000	2016 £'000
Current taxation		
Profit before tax on continuing operations	9,512	7,126
Tax at the UK corporation tax rate of 19.58% (2016: 20.00%)	1,862	1,425
Effects of:		
Expenses not deductible for tax purposes	20	480
Income not taxable for tax purposes	-	(1)
R&D tax credit	(773)	(706)
Overseas tax	-	(8)
Prior period adjustment - current tax	(113)	(231)
Prior period adjustment - deferred tax	(18)	(12)
Effect of change in standard rate of deferred tax	(19)	-
Share options expense deductible - current tax	-	(25)
Share options expense deductible - deferred tax	-	(52)
Current tax charge for period	959	870

The Finance Act 2016, which included legislation reducing the main rate of corporation tax from 20% to 19% from 1st April 2017 and to 17% from 1st April 2020, was enacted on 15th September 2016. The deferred tax liability at 31 August 2017 has been calculated based on these rates.

6 DIVIDENDS

The following equity dividends have been declared:

	Year to 31 August 2017	Year to 31 August 2016
Dividend per qualifying ordinary share	2.70p	1.95p

During the year, the Company paid an interim dividend in respect of the year ended 31 August 2017 of 0.75 pence per share.

On 21 November 2017, the Directors recommended a final dividend of 1.95 pence per share (2016: 1.3 pence per share), making a total of 2.7 pence per share for the year (2016: 1.95 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	
	2017	2016
	£'000	£'000
Earnings for the purposes of basic and diluted EPS being net profit for the period	8,553	6,256

Number of shares	Year ended 31 August	
	2017	2016
	Number	Number
	'000	'000
Weighted average number of ordinary shares for the purposes of basic EPS calculation	55,432	53,207
Effect of dilutive potential ordinary shares:		
EMI Scheme and unapproved share option plan	2,357	5,297
Weighted average number of ordinary shares for the purposes of diluted EPS calculation	57,789	58,504

EPS	Pence	Pence
Basic EPS	15.4	11.8
Diluted EPS	14.8	10.7

At 31 August 2017, the total number of ordinary shares issued and fully paid was 58,075,000. This included 2,546,845 (2016: 4,494,504) 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 (2,546,845). 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	
	2017	2016
	£'000	£'000
Profit for the financial period	8,553	6,256
Non-underlying items	-	537
Tax on non-underlying items	-	(107)
Total underlying profit for adjusted EPS calculation	8,553	6,686

	Year ended 31 August	
	2017	2016
	Number	Number
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic EPS calculation	55,432	53,207
Effect of dilutive potential ordinary shares:		
EMI Scheme and unapproved share option plan	2,357	5,297
Weighted average number of ordinary shares for the purposes of diluted EPS calculation	57,789	58,504

EPS	Pence	Pence
Adjusted basic EPS	15.4	12.6
Adjusted diluted EPS	14.8	11.4