

Strictly embargoed until: 07.00, 20 November 2018.

Focusrite plc
("the Company" or "the Group")
Final Results for the Year Ended 31 August 2018

Focusrite plc (AIM: TUNE), the global music and audio products company, announces Final Results for the year ended 31 August 2018.

Financial highlights

- Group revenue grew by 13.7% (constant currency¹: 15.3%) to £75.1 million (FY17: £66.1 million)
- EBITDA² grew by 18.1% to £15.5 million (FY17: £13.1 million)
- Operating profit grew 26.1% to £11.9 million (FY17: £9.5 million)
- Adjusted³ operating profit grew 22.6% to £11.6 million (FY17: £9.5 million)
- Diluted earnings per share grew 22.3% to 18.1p (FY17: 14.8p)
- Adjusted³ diluted earnings per share grew 18.9% to 17.6p (FY17: 14.8p)
- Net cash of £22.8 million (FY17: £14.2 million)
- Final dividend of 2.3p recommended, resulting in 3.3p for the year, up 22.2% on prior year

Operational highlights

- Once again, we experienced growth in both major segments (Focusrite and Novation) and in all reported geographic regions.
- In Focusrite, all major ranges (Scarlett, Clarett, Red and RedNet) grew and the overall segment grew by 17.2%.
- In Novation, the primary growth was in synthesisers following the launch of Peak, while the more established ranges such as Launch and Launchkey also grew, although at slower rates. Overall, Novation grew by 6.4%.
- New efforts and investments in localised field personnel, marketing and support has increased net promoter scores (NPS) and driven widespread growth.
- All major geographic regions grew: North America was up by 10.2%; Europe, Middle East and Africa by 18.1%; and the Rest of World by 13.3%.
- Five new products launched over the year.
- The software team continues to progress along its widened strategy of software development for both its own apps and the broader product development within the Group.
- The e-commerce website is delivering products globally as part of the Group's efforts to ensure that customers can access the Group's products wherever they are in the world.

¹ Constant currency revenue growth is calculated by taking the sterling value of FY18 revenue, converting to FY17 annual average exchange rates and comparing with the reported revenue for FY17. In addition, all foreign exchange movements disclosed in revenue are excluded from both years.

² Comprising of earnings adjusted for interest, taxation, depreciation and amortization.

³ Adjusted for non-underlying items (see note 4).

Chief Executive Officer Tim Carroll said:

"We are very pleased to present a set of results where growth is the overarching theme: both Focusrite and Novation segments have grown; as have all major geographic regions.

This set of results is a testament to the solid momentum that we have worked hard to achieve and, while this is important, at Focusrite we are always looking to the future to ensure our continued success.

Importantly, we continue to see strong market and reseller acceptance across our expanding portfolio, which highlights the strength of our brands, and our new product pipeline continues to grow."

Executive Chairman Phil Dudderidge said:

"I am delighted Focusrite plc has delivered another record year.

I am very proud to have built a company that plays a long game. Focusrite is in its 30th year and has grown to become a global leader in recording hardware technology.

As a market leader, we continue to evolve and to that end the Group is also researching tools for the future direction of music recording, improving ease of workflow for the professional musician and ease of use for the musician for whom recording is a new skill to be developed.

Our history of being at the forefront of innovation in music technology, along with the fact that we have an established, global customer base, market-leading brands and a strong corporate culture, make us well placed for the future."

Availability of Annual Report and Notice of AGM

The Annual Report and Accounts for the financial year ended 31 August 2018 and notice of the Annual General Meeting ("AGM") of Focusrite will be posted to shareholders by 28 November 2018 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 21 December 2018.

The timetable for the final dividend is as follows:

27 December 2018	Ex-dividend Date
28 December 2018	Record Date
21 December 2018	AGM to approve the recommended final dividend
18 January 2019	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 incredibly proud to introduce the 2018 Report and Accounts of Focusrite Plc and subsidiaries in what has once again been a record year for the Company.

Focusrite plays a long game. The business is in its 30th year and has become a global leader in recording hardware technology. Under the Focusrite brand, and working with Avid Pro Tools and Ableton Live recording software brands, we have gone from strength to strength and after the acquisition of Novation in 2004 the Group has grown to become a leading brand in the electronic music creation world.

This is the first full year since the appointment of Tim Carroll as Chief Executive Officer, a position he has held since January 2017. I am delighted to report that his appointment is recognised across the firm, suppliers and our customers as a great success. As this report indicates, he is leading a number of initiatives that support our growth strategy.

The Company continues to be highly cash generative, with net cash of £22.8 million at the year end, building an ability to pursue an acquisition strategy that we have aspired to since the IPO in December 2014. To that end we have appointed a Business Development Manager to coordinate and analyse opportunities as they arise and to identify appropriate businesses that might fit a Focusrite Family of complementary brands. We have rejected propositions that did not meet our tests of profitability and cash generation as we have clear goals as to the nature and performance potential of any business that might qualify for acquisition.

In addition to Ampify apps for the Apple iOS platform, the London-based software unit is also developing new products to complement Focusrite and Novation hardware on Mac and PC. As a market leader, we continue to evolve and to that end the Group is also researching tools for the future direction of music recording, improving ease of workflow for the professional musician and ease of use for the musician for whom recording is a new skill to be developed.

Our business is predicated on the commitment of over 200 people around the world. In addition to the usual head office activities, the 150 UK employees are focused on product development, customer support, sales and marketing. Our subsidiary, Focusrite Novation Inc. based in Los Angeles, supports the US market with marketing, customer support and retail channel communication. Similarly, other regional representatives in Germany, Hong Kong and Mexico (for Latin America) support their local regions with sales management, marketing and customer support.

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

This year, we welcomed Naomi Climer to the Board. Naomi has a huge amount of highly relevant technical and industry experience and we are delighted that she has joined us as a Non-executive Director. The Group aspires to high standards of corporate governance and I would like to take this opportunity to thank all of our Non-Executives for their wise guidance, counsel and acknowledge the variety of different skills and broad experience that they bring to the Board.

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

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

Phil Dudderidge

Founder and Executive Chairman

Chief Executive's Statement

Introduction: innovation at our core

I am very pleased to update our shareholders on our record year of performance, with all key metrics showing growth. The Group has had another year of operational and financial success that extends across our portfolio as well as on a regional basis, with all reported regions showing growth.

This year has seen the launch of five new products, a host of upgrades to our existing portfolio, and investments in many new systems, people and resources to continue to drive our growth strategy.

Our employee footprint, growing this year to 210, continues to expand in our High Wycombe headquarters as well as our offices in London, Los Angeles and Hong Kong, with further employees in Germany and Mexico. We are fortunate to have so many employees globally that have a real passion for music and audio; many being musicians, audio engineers, or DJs themselves using our products in real-world environments every week. It continues to be a great pleasure and privilege to help guide and lead them, and I thank them for their hard work and dedication.

Our Operations

The Group's products are sold in approximately 160 territories and countries all over the world. We utilise an effective mix of retailers – online and 'bricks and mortar' locations, distributors in select areas, a hybrid approach in North America utilising a wholesale 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 900,000 physical products to end-users last year, and our music creation apps were downloaded over 2 million times with over 750,000 in-app customer transactions. Our manufacturing partners are located in South China and we use third-party logistics support.

Our market

The global audio production market remains a growth sector for technology companies like Focusrite. Our products and solutions are key components for many personal and professional audio recording customers and musicians, allowing them to focus on the creative process. Alongside that, we recognise the opportunity to continue to make audio recording technology easier to use and more accessible to a larger addressable market.

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

Sales of our second-generation Scarlett USB audio interface range remained strong with 15% growth, increasing in overall market share from what was already a very high position.

RedNet is well poised to help any professional or facility scale their production capability; a vital component for success as we see sweeping increases in original content production, live sound events and multi-format on-air shows.

To that end, and to ensure we focus all of our resources and energy with precision, we have refined our customer personas into five core categories. We have identified 'The New Creator', a customer who might have little or no music knowledge; the 'Passionate Maker', someone who may or may not play a traditional instrument but wants to make 'good' music; the 'Serious Aspiring Producer', for whom music is more than just a hobby; and the 'Master' and 'Facility' personas - highly skilled musicians, audio engineers, or business entities focused on audio production.

Operating review of another record year

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 13.7% to £75.1 million and gross margin grew from 39.9% to 42.2%, resulting in an operating profit of £11.9 million, representing year-on-year growth of 26.1%.

This positive performance has been driven by a number of factors. We have witnessed a wider market acceptance and growth of share in many of our core products. New product introductions over the course of the year resonated well with customers and provided incremental lift. Likewise, customer and sales channel satisfaction feedback remains strong on existing products illustrated by our top net promoter scores ('NPS') for individual products.

Additionally, we have begun to see positive results from many of our IT-based initiatives that we funded over the year: enhanced websites, social media demand generation, and localized online experiences in markets such as Japan, Mexico and Germany.

We continue to invest in talented and passionate people across the globe to support our business in sales, marketing, customer support and product development. We now have two full-time employees in Latin America and have increased our UK, German, Hong Kong and US hires to support the business.

Throughout this year we have witnessed several events, namely ongoing Brexit negotiations and the imposition of US tariffs, that require scrutiny to ensure the business is well prepared to mitigate any possible associated effects. The Group has spent considerable time weighing options and in some instances, such as for the US tariffs, are already acting to protect the profitability of the business. We believe we are well prepared for these events and further comment is included in the section on Principal Risks and Uncertainties.

Segmental Review

Focusrite

Within Focusrite, our Scarlett, Clarett and RedNet ranges all grew, leading to total segment revenue growth of 17.2%. In each category we increased market share and experienced growth beyond the industry norms.

Sales of our second-generation Scarlett USB audio interface range remained strong with 15% growth and grew in overall market share from what was already a high market share. This product line remains the number one selling audio interface product in the world and has earned the reputation as a best-in-class, premium solution at affordable pricing. The build quality, highly-skilled Mac and Windows driver development and well thought out suite of recording software tools make this the perfect solution for the new creator and aspiring producer.

Focusrite was honoured to have won our fourth Queen's Award this year for innovation for our Scarlett Gen 2 line.

The Clarett range continues to set new price/performance standards in our mid-range interface offerings. Created for both the aspiring and professional recordist, Clarett has disrupted the market with a price to performance mix that is unparalleled in the industry. Refreshing the line with a new USB range this year, we have widened our opportunity base and have seen pleasing growth from this part of our portfolio.

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, installed sound and broadcast markets. Major broadcasters such as NBC, and Hollywood post-production facilities such as Formosa Group, have started implementing RedNet into their production workflows to reap numerous benefits in efficiency, costs and productivity. RedNet is well poised to help any professional or facility scale their production capability; a vital component for success as we see sweeping increases in original content production, live sound events and on multi-format distribution on-air shows.

Novation

The Novation product line is all about the creation and production of electronic music. Electronic music and its many genres has democratised music making in a powerful way, vastly widening the net of potential music makers. Our Launchpad, Launchkey, and synthesiser product categories all experienced growth, with overall growth in this business segment of 6.4%.

Launchpad continues to be a powerful and widely accepted creation and performance tool for electronic music. We have seen a continued growth of customers purchasing Launchpad that are just starting their journey into electronic music making. This, coupled with larger penetration from online distribution channels such as Amazon, has driven demand for Launchpad and made Novation an integral part of many electronic musician's workflows.

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

Our family of professional synthesisers complete the Novation family of products. Synthesisers have been core to the Novation brand since inception and have developed a reputation as cutting-edge instruments that add a unique pallet of sounds and colour to an artist's production. Our new flagship synthesiser, Peak, has seen widespread adoption and won numerous accolades from the industry as a true next-generation synthesiser; building on the legacy of the Novation brand and its many famous, earlier synthesiser products.

Ampify develops powerful yet brilliantly simple music creation tools for new creators. Requiring no more than an iOS device, our apps allow anyone to create amazing music tracks in a wide variety of styles. Our apps consistently rank in the top ten for music creation tools on Apple's app store and are currently included on products displayed in Apple stores worldwide. We are investing substantially in Ampify, as we aim to grow the Company's own software capability and 'leverage' software to further our ability to enable creative workflows for users at all levels.

We are extremely proud that our apps have now been downloaded over 9.5 million times and this is an indication of the strength not only of our software products but the size of the market opportunity.

Distribution

We are happy to report that revenue from this segment grew by 8.4% over the prior year. These products, such as KRK monitors and sE Electronics microphones, are a small overall proportion of Group revenue but remain important to us as they offer add-on products within the music-making industry and provide us with invaluable market feedback, insight and knowledge.

Geographic overview

I am pleased to report that our success this year was global and sales in all our major regions grew. North America finished with a 10.2% rise in revenue when compared with last year. Europe, Middle East and Africa experienced 18.1% growth. Rest of World finished the year with 13.3% year-on-year growth.

North America

The US market, which accounts for approximately 41% of total Group revenue, grew by 11%. This growth was realised in all product categories. The US had a very strong first half with the holiday season showing robust sales for our more retail-oriented products such as Scarlett and Launchpad. The second half also experienced year-on-year growth but, as predicted, at a slower rate than the first half. We continue to invest in our US demand generation and customer support team, and have successfully moved into a new Los Angeles location to accommodate our growth.

Canada, which accounts for approximately 2% of Group revenue was flat year-on-year. We are increasing our investment into this region this coming year by utilising our demand generation teams in the US and expect to see solid growth out of the region in future.

Europe, Middle East and Africa ('EMEA')

EMEA, which represents approximately 40% of Group revenue, had a successful year with strong growth performance in all major product categories. Including the UK and mainland Europe, the region is comprised of direct resellers, distributors and our own e-store. We have offices in the UK and a team in Germany to support our European business.

Rest of the World

Within the Rest of the World region, Asia-Pacific had a good year with 19% growth. We continue to invest in people for the region and our Hong Kong office is now fully functional and integrated with our Company systems, including local and 'follow the sun' customer support.

This year was an investment year for Latin America as we made our first full-time hires for Mexico and Brazil, as well as new IT infrastructure to support localised content and transactions. These new hires came on board late in the financial year, but early signs are positive, as is feedback from our new localised customer experience. We view Latin America as an area with significant growth potential and will continue to assign resources over the course of this year.

Growth drivers

Innovation is clearly a key focus for us and has been a key driver of growth. We continue to spend approximately 6% of revenue on R&D so as to provide a constant stream of new and relevant products for our various customer channels.

During the year we launched five new hardware products and numerous software/firmware updates to expand and enhance our product offerings. These new products are across different price segments and target different customer markets, giving us further penetration and reach. Feedback from the consumer, retailer and distribution channels continues to be positive and acceptance so far has been very pleasing.

We regularly update and enhance our offerings to improve the creative workflow, maintain world-class customer service and make our solutions easier to install and use, generating industry-leading NPS and overall customer experience statistics.

Another key part of our drive towards growth is our e-commerce store with special emphasis on markets where we see an opportunity to augment local distribution with localised content, language support and swift delivery to end-users. Currently our e-commerce business is about 1% of Group revenue. However, the e-store is also a powerful marketing tool and, in many countries, helps support the local reseller channel as well with its reseller locator features.

We continue to refine and improve the 'out-of-the-box' experience for all our customers, beginners and professionals alike. We believe that a great first experience with our products is paramount to our overall success.

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. To achieve this, we will continue to innovate, disrupt, grow our audience and help all our customers, from beginners to professionals, remove barriers from the creative process of music creation and audio recording.

There is much change in the trading environment, providing risk and some opportunity: changes in technology and new customer requirements can emerge quickly, macroeconomic and political factors affect our end customers and distributors alike and competitive pressures remain strong. We manage these factors proactively.

Last year, we had a record period pre-Christmas driven by a burst of demand for the Group's more consumer-oriented products such as Launchpad, resulting in a weighting in favour of the first half. As anticipated, trading in the first few months of this financial year has been broadly similar to the results achieved in the same period last year. The Board expects the current year to follow the Group's more usual seasonal pattern and, at this early stage, believes that Focusrite is well placed to deliver further growth for shareholders.

Tim Carroll

Chief Executive Officer

Financial Review

Overview

The Group has generated growth of 13.7% in revenue, growth of 18.1% in EBITDA and growth of 18.9% in adjusted diluted earnings per share ('EPS').

The Group has regularly reported longer-term growth. Since FY09, the overall revenue growth is 729%, or if you prefer, 26.4% compound; all of which has been organic.

Income statement

Revenue

Revenue grew 13.7% (15.3% at constant exchange rates) from £66.1 million to £75.1 million.

The Focusrite segment comprises the products used in the recording and broadcasting of music. The primary ranges are Scarlett, Clarett, Red and RedNet. All ranges grew in revenue. Scarlett, which is approximately three-quarters of the revenue in this segment, increased by 15%. As a segment, Focusrite increased by 17.2%, from £44.6 million to £52.2 million, as the Group launched further products in the Clarett and Red ranges in addition to further Scarlett second-generation growth in market share.

The Novation segment is directed towards the creation of music and consists of the Novation and Ampify brands. About half of this segment relates to the Launchpad range although the star product this year was the new synthesiser (Peak). Peak was launched in 2017 and helped our sales of synthesisers to grow by 46%, while the bigger ranges such as Launchpad and Launchkey grew more slowly. The segment revenue was £20.1 million, up 6.4% on £18.9 million last year.

Finally, in the UK, the Group distributes products such as studio monitors and microphones manufactured by other organisations. Revenue was £2.9 million, up 8.4% from £2.6 million in 2017.

All the major regions grew. North America is 43% of the Group and grew at 10.2% (constant currency: 17%) to £32.7 million. North America is biased towards the Focusrite brands versus Novation (Focusrite is 76% of the total revenue). The growth was across all brands although Pro was the strongest, growing at 24%.

Europe represents 40% of Group revenue. Europe grew 18.1% (constant currency: 11%) to £29.7 million. Within Europe, UK was weaker, while EMEA grew more strongly. For the brands, Focusrite was strong.

The Rest of the World ('ROW') comprises mainly Asia and South America and is the remaining 17% of Group revenue. This has been a key area of investment as the Group has opened a sales and marketing office in Hong Kong and now employed a full-time regional sales manager in Mexico. ROW grew by 13.3% (constant currency: 21%) to £12.7 million. Within this region the faster growth was within Focusrite.

Exchange rates were more stable this year. In FY17, GBP weakened, which helped the result: reported revenue growth was 21.6% and constant exchange rate growth was 13%. In FY18, foreign exchange rates represented a minor headwind. In particular, the US Dollar weakened from an average of \$1.27 = £1 to \$1.35 = £1. Therefore, constant exchange rate revenue growth (15.3%) was stronger than reported growth (13.7%).

Furthermore the Board are aware of the possible results of the Brexit discussions and the effect that the resultant agreement will have on the Euro/GBP exchange rate. This effect would be mitigated partially by the Group's hedging arrangements: the Group aims to hedge 75% of net Euro flows in the coming financial year, and 50% in the following financial year.

Segment profit

Segment profit is disclosed in the note to the accounts, 'Business Segments'. For each reportable segment, Focusrite, Novation and Distribution, the revenue is compared with the directly attributable costs to create a segment profit.

The segment profit for Focusrite was £25.1 million (2017: £20.2 million). This increased by 24.2% over the prior year, driven primarily by revenue growth and higher gross margin. The segment profit for Novation was £10.1 million (2017: £9.2 million). This increased by 9.4% over the prior year. Finally, the segment profit for Distribution was £0.8 million (2017: £0.7 million).

Gross profit

While revenue grew by 13.7%, gross profit grew by 20.2% to £31.7 million. This was a function of the higher revenue and a higher gross margin. Gross margin was 42.2% (FY17: 39.9%). The significant increase in gross margin was due to the stronger Euro and closer management of customer discounts.

Administrative expenses

Administrative expenses consist of sales, marketing, operations, the uncapitalised element of R&D and central functions such as legal, finance and the Group Board. These expenses were £19.7 million, up from £16.9 million last year. Again, the major part of the growth was in sales and marketing, including the Focusrite Pro sales team, further investment in the Hong Kong office, further investment in e-commerce and marketing expenditure, especially on-line marketing.

EBITDA

EBITDA is used within the Group for two particular reasons. Firstly, it is a widely-used measure of underlying trading performance, enhancing comparability between industries. Secondly, it forms the basis of much of the incentivisation of senior management within the Group. EBITDA increased by 18.1% to £15.5 million (FY17: £13.1 million).

Depreciation and amortisation

Depreciation is charged on tangible fixed assets on a straight-line basis over the assets' estimated useful lives, normally ranging between 2 and 5 years.

Amortisation is mainly charged on capitalised development costs, writing off the development cost over the life of the resultant product. It is intended that the costs are capitalised cautiously and amortised quickly, with all development costs related to an individual product written off over a period up to three years. In the year, the development costs capitalised were £3.0 million (FY17: £2.7 million) and the equivalent amortisation was £2.4 million (FY17: £2.8 million).

Non-underlying item

The Group has considered the amortisation of research and development intangible assets on a project-by-project basis rather than applying a standard principle across all. This change of estimation of the start date of amortisation has resulted in a single adjustment to reduce the amortisation previously charged by £0.3m and has been shown as a non-underlying item in FY18. There were no non-underlying items in FY17.

Income statement

	2018 £m Adjusted	2018 £m Non- underlying	2018 £m Reported	2017 £m Adjusted	2017 £m Non- underlying	2017 £m Reported
Revenue	75.1	-	75.1	66.1	-	66.1
Cost of sales	(43.4)	-	(43.4)	(39.7)	-	(39.7)
Gross profit	31.7	-	31.7	26.4	-	26.4
Administrative expenses	(20.1)	0.3	(19.8)	(16.9)	-	(16.9)
Operating profit	11.6	0.3	11.9	9.5	-	9.5
Net finance income	(0.2)	-	(0.2)	(0.0)	-	(0.0)
Profit before tax	11.4	0.3	11.7	9.5	-	9.5
Income tax expense	(1.2)	(0.0)	(1.2)	(0.9)	-	(0.9)
Profit for the period	10.2	0.3	10.5	8.6	-	8.6

	2018 £m Adjusted	2018 £m Non- underlying	2018 £m Reported	2017 £m Adjusted	2017 £m Non- underlying	2017 £m Reported
Operating profit	11.6	0.3	11.9	9.5	-	9.5
Add – amortisation of intangible assets	3.1	(0.3)	2.8	2.9	-	2.9
Add – depreciation of tangible assets	0.8	-	0.8	0.7	-	0.7
EBITDA	15.5	-	15.5	13.1	-	13.1

Foreign exchange and hedging

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

Exchange rates	2018	2017
Average		
USD:GBP	1.35	1.27
EUR:GBP	1.13	1.16
Year end		
USD:GBP	1.30	1.29
EUR:GBP	1.12	1.09

The average US Dollar rate has weakened from \$1.27 to \$1.35. The US Dollar accounts for approximately 60% of Group revenue so this reduces the revenue growth. However, the Group also buys product in US Dollars and has some US Dollar operating costs so there is a natural hedge. Therefore, the US Dollar weakening reduced revenue but had little effect on gross profit.

The Euro comprises approximately a quarter of revenue but little cost. The Group enters into forward contracts to convert Euro to GBP. In FY17, approximately three-quarters of Euro flows were hedged at €1.28, thereby creating a blended exchange rate of approximately €1.26. In FY18, the equivalent hedging contracts were at €1.12, being very close to the transactional rate of €1.13 and so creating a blended exchange rate of €1.12.

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

The major part of the balance within financing costs was the cumulative foreign exchange loss on the translation of cash held in US Dollars.

Corporation tax

Corporation tax as a proportion of profit before tax was 10.3% (FY17: 10.1%). The major part of the Group's profits are taxed in UK, where the headline rate is 19%. The effective tax rate is lower than this headline rate, due largely to enhanced tax relief on R&D costs.

Earnings per share

The basic EPS for the year was 18.4 pence, up 19.5% from 15.4 pence in FY17. This rise was driven largely by the rise in profit, but also included the impact of a non-underlying item in FY18. The more comparable measure, excluding non-underlying items and including the dilutive effect of share options, is adjusted diluted EPS. This was 17.6 pence, up 18.9% from 14.8 pence in FY17.

Earnings per share

	2018	2017	Growth
	P	P	%
Basic	18.4	15.4	19.5%
Diluted	18.1	14.8	22.3%
Adjusted basic	18.0	15.4	16.9%
Adjusted diluted	17.6	14.8	18.9%

Balance sheet

	2018	2017
	£m	£m
Non-current assets	7.3	6.3
Current assets		
Inventories	11.4	8.3
Trade and other receivables	13.4	13.0
Cash	22.8	14.2
Current liabilities	(11.1)	(8.7)
Non-current liabilities	(0.4)	(0.2)
Net assets	43.4	32.9

Cash flow

	2018	2017
	£m	£m
Free cash flow ¹	10.0	9.4
Add – non-underlying cash outflows	0.0	0.1
Underlying free cash flow	10.0	9.5

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 development costs; property, plant and equipment; and software. Approximately 70% of development costs are capitalised and they are amortised over three years. This policy is unchanged from last year.

Working capital

Working capital was stable at 18.2% of revenue (FY17: 19.1%). Experience over the four years since the IPO suggests that this is an appropriate level. If the working capital is closer to 25% of revenue, the cash generation is reduced and there is likely to be too much stock. If the working capital falls closer to 15% of revenue, it is likely that some stock may be running low.

The improved business practices around stock have been maintained. Stock was increased from £8.3 million to £11.4 million. The majority of this increase was to support the increase in demand.

Customers continue to pay essentially on time with only 5% of customer debts overdue at the year end. Finally, suppliers are paid on time.

Cash flow

The total cash balance year end was £22.8 million, up from £19.7 million at the half year and £14.2 million at 31 August 2017. There was no debt in either year. The movement in working capital was a small outflow of £0.4 million (FY17: inflow of £0.4 million). Given that revenue increased by £9.1 million, the movement in working capital was very low. If working capital is approximately 20% of revenue, then barring any extenuating circumstances, it would be reasonable for the movement in working capital to be an outflow of 20% of the increase in revenue, so the movement in working capital this year is a positive result. Free cash flow was again strong, at £10.0 million (FY17: £9.4 million), which represented 13.3% of revenue (FY17: 14.3%). Since IPO, the average free cash flow as a percentage of revenue has been 9.9%. Finally, the Group has a committed five-year £10 million revolving credit facility with HSBC, expiring in December 2020.

Dividend

The Board is proposing a final dividend of 2.3 pence per share (FY17 final dividend: 1.95 pence), which would result in a total of 3.3 pence per share for the year (FY17: 2.7 pence). This represents an adjusted earnings dividend cover of 5.3 times (FY17: 5.5 times) and moves the Group closer to its stated target of 5 times.

Summary

The Group has had another strong year with growth across revenue, profits, cash and dividend. Revenue has grown by 13.7%, EBITDA by 18.1%, adjusted operating profit by 22.6% and adjusted diluted EPS by 18.9%. In addition, the free cash flow has been strong and the cash balance has been increased from £14.2 million to £22.8 million. The strategy is clear and we press on.

Jeremy Wilson

Chief Financial Officer

Principal Risks and Uncertainties

Risk factors

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

Risk area	Description	Mitigation
Economic environment	The Group operates in the global economy and ultimately within the retail environment with products being sold to consumer end-user musicians. Such operations are influenced by global and national economic factors.	The Group sells products at all levels of the market in c.160 territories worldwide via two distinct product categories and is working to reduce reliance on any single product or territory.
Macro-economic changes affecting the ease and cost of moving stock between countries	<p>The impact of the decision to exit the European Union remains uncertain. There has already been foreign exchange volatility. It is probable that the UK will not be part of the customs union and the Group anticipates the imposition of some additional duties and minor disruption to the logistics network.</p> <p>In September 2018 the USA implemented tariffs of 10% (potentially rising to 25% in January 2019) on the importing of most products manufactured in China. The Group has product manufactured in China, so selling product in the US will become more expensive.</p>	<p>The Group is positioning itself to be able to react to the uncertainties faced by the business. The Group has previously increased selling prices in the UK to correct the imbalance caused by the significant foreign exchange rate changes, and will continue to monitor other possible effects of Brexit and act accordingly as they become known.</p> <p>The Group has increased the minimum advertised price to cover the additional tariffs. This provides a possible upside from the higher price charged but an uncertainty regarding the effect of the higher price on consumer demand.</p>
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.	R&D remains one of the Group's largest investments. The Group has a bespoke project system that facilitates the operation of a rigorous, disciplined product introduction process to ensure that as far as possible the fast-changing needs of its target markets are met. In addition, the Group continuously seeks efficiencies and minimises costs where possible.
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 has supply agreements with four major Chinese manufacturers. The Group works with its resellers and distributors to ensure they are holding sufficient stock levels should there be disruption to the supply chain. Relationships are long-lasting and strong. Members of the operations department within Focusrite meet each supplier three to four times per year to review performance and costs.

Key resellers and distributors	In certain countries, including the USA, the Group operates via a single distributor or has large individual reseller customers. In certain cases, a failure of or breakdown in the relationship with a key reseller or distributor, or even the failure of a major customer of that distributor, could significantly and adversely affect the Group's business.	In cases where there is a large distributor in a significant market, the Group also communicates with the major retailers. In addition, the Group carefully monitors customer credit limits and has credit insurance which typically covers the majority of the customer debts outstanding at any point in time.
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 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 attract, retrain and motivate such individuals.	The Group is a leading company in the UK music industry and so attracts high-quality technical personnel. The Group also attracts graduates from music technology, electronics and engineering courses at renowned universities. The Group invests in developing its employees and incentivises them through wide-ranging share ownership incentives and other employment benefits to aid retention.
Intellectual property 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 established a programme for protecting its intellectual property and pursues infringements. The Group has data and information technology controls which are reviewed by the Group Board. Additionally, the Group includes data protection provisions in the contracts of all Group employees.
Information security	Information security and cyberthreats are currently a priority across all industries and remain a key government agenda item.	The Group has carried out a detailed review of IT systems to identify elements requiring upgrade. There has already been a widespread upgrade of core IT functionality including cybersecurity (firewalls, anti-virus, mobile device management) and the implementation of backup and disaster recovery processes. The Group has moved core enterprise resource planning systems to the cloud with robust service level agreements in place to ensure data availability and security. The Group implemented a customer relationship management system to ensure GDPR compliance. There is an improving business continuity framework and a dedicated internal IT support team aided by external support providers.

FORWARD LOOKING STATEMENTS

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

Consolidated Income Statement

For the year ended 31 August 2018

	Note	2018 £'000	2017 £'000
Revenue	1	75,121	66,055
Cost of sales		(43,447)	(39,704)
Gross profit		31,674	26,351
Administrative expenses		(19,732)	(16,881)
EBITDA (non-GAAP measure)		15,485	13,109
Depreciation and amortisation		(3,872)	(3,639)
Non-underlying items	4	329	-
Operating profit		11,942	9,470
Finance income		4	86
Finance costs		(274)	(44)
Profit before tax		11,672	9,512
Income tax expense	5	(1,199)	(959)
Profit for the period from continuing operations		10,473	8,553
Earnings per share			
From continuing operations			
Basic (pence per share)	7	18.4	15.4
Diluted (pence per share)	7	18.1	14.8

Consolidated Statement of Comprehensive Income

For the year ended 31 August 2018

	Note	2018 £'000	2017 £'000
Profit for the period (attributable to equity holders of the Company)		10,473	8,553
<i>Items that may be reclassified subsequently to the income statement</i>			
Exchange differences on translation of foreign operations		19	(8)
Profit/(loss) on forward foreign exchange contracts designated and effective as a hedging instrument		541	659
Tax on hedging instrument		(106)	(134)
Total comprehensive income for the period		10,927	9,070
Total comprehensive income attributable to:			
Equity holders of the Company		10,927	9,070
		10,927	9,070

The notes form part of the financial statements.

Consolidated Statement of Financial Position

As at 31 August 2018

	2018	2017
	£'000	£'000
Assets		
Non-current assets		
Goodwill	419	419
Other intangible assets	5,620	4,544
Property, plant and equipment	1,275	1,369
Total non-current assets	7,314	6,332
Current assets		
Inventories	11,391	8,334
Trade and other receivables	13,310	12,952
Cash and cash equivalents	22,811	14,174
Derivative financial instruments	100	-
Total current assets	47,612	35,460
Total assets	54,926	41,792
Equity and liabilities		
Capital and reserves		
Share capital	58	58
Share premium	115	-
Merger reserve	14,595	14,595
Merger difference reserve	(13,147)	(13,147)
Translation reserve	50	31
Hedging reserve	46	(389)
EBT reserve	(1)	(3)
Retained earnings	41,731	31,739
Equity attributable to owners of the Company	43,447	32,884
Total equity	43,447	32,884
Current liabilities		
Trade and other payables	10,709	7,720
Current tax liabilities	427	459
Derivative financial instruments	-	484
Total current liabilities	11,136	8,663
Non-current liabilities		
Deferred tax	300	245
Derivative financial instruments	43	-
Total liabilities	11,479	8,908
Total equity and liabilities	54,926	41,792

The financial statements were approved by the Board of Directors and authorized for issue on 20 November 2018. They were signed on its behalf by:

Tim Carroll
Chief Executive Officer

Jeremy Wilson
Chief Financial Officer

The notes form part of the financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 August 2018

	Share capital £'000	Share premium £'000	Merger reserve £'000	Merger difference reserve £'000	Translation reserve £'000	Hedging reserve £'000	EBT reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 September 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 1 September 2017	58	-	14,595	(13,147)	31	(389)	(3)	31,739	32,884
Profit for the period	-	-	-	-	-	-	-	10,473	10,473
Other comprehensive income for the period	-	-	-	-	19	435	-	-	454
Total comprehensive income for the period	-	-	-	-	19	435	-	10,473	10,927
Transactions with owners of the Company:									
Share-based payment deferred tax deduction in excess of remuneration expense	-	-	-	-	-	-	-	95	95
Share-based payment current tax deduction in excess of remuneration expense	-	-	-	-	-	-	-	698	698
New shares issued	-	115	-	-	-	-	-	-	115
Shares from EBT exercised	-	-	-	-	-	-	2	189	191
Share-based payments	-	-	-	-	-	-	-	216	216
Dividends paid	-	-	-	-	-	-	-	(1,679)	(1,679)
Balance at 31 August 2018	58	115	14,595	(13,147)	50	46	(1)	41,731	43,447

The notes form part of the financial statements.

Consolidated Cash Flow Statement

For the year ended 31 August 2018

	2018	2017
Note	£'000	£'000
Operating activities		
Profit for the financial year	10,473	8,553
Adjustments for:		
Income tax expense	1,199	959
Net interest	270	(42)
Profit on disposal of property, plant and equipment	(14)	(8)
Amortisation of intangibles	2,804	2,950
Depreciation of property, plant and equipment	740	689
Share-based payments charge	216	145
Operating cash flows before movements in working capital	15,688	13,246
Increase in trade and other receivables	(358)	(1,728)
(Increase)/decrease in inventories	(3,057)	3,027
Increase/(decrease) in trade and other payables	2,989	(892)
Operating cash flows before interest and tax paid	15,262	13,653
Net interest paid	(36)	(42)
Income taxes paid	(478)	(633)
Cash generated by operations	14,748	12,978
Net foreign exchange movements	(226)	84
Net cash from operating activities	14,522	13,062
Investing activities		
Purchases of property, plant and equipment	(651)	(493)
Purchases of intangible assets	(3,880)	(3,121)
Proceeds from disposal of property, plant and equipment	19	-
Net cash used in investing activities	(4,512)	(3,614)
Financing activities		
Issue of equity shares	306	258
Equity dividends paid	(1,679)	(1,138)
	6	
Net cash used in financing activities	(1,373)	(880)
Net increase in cash and cash equivalents	8,637	8,568
Cash and cash equivalents at beginning of year	14,174	5,606
Cash and cash equivalents at end of year	22,811	14,174

The notes form part of the financial statements.

Notes to the Final Results

For the year ended 31 August 2018

These condensed preliminary financial statements of the Company and its subsidiaries ("the Group") for the year ended 31 August 2018 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 2017 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 2018 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 2018 audited accounts will be available on 20 November 2018 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	
	2018	2017
	£'000	£'000
Continuing operations		
North America	32,720	29,702
Europe, Middle East and Africa	29,706	25,153
Rest of the World	12,695	11,200
Consolidated revenue	75,121	66,055

In previous financial statements the Group has disclosed revenue earned in Canada within the Rest of the World region. In the year ended 31 August 2018 this revenue was reclassified to the USA region, and the region was renamed North America. The table below sets out the regional analysis of revenue under the previous classification:

	Year ended 31 August	
	2018	2017
	£'000	£'000
Continuing operations		
USA	31,184	27,990
Europe, Middle East and Africa	29,706	25,153
Rest of the World	14,231	12,912
Consolidated revenue	75,121	66,055

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. While the results of Focusrite and Focusrite Pro are reported separately to the Board, they are aggregated together for the purposes of segmental reporting. Similarly, the results of Novation and Ampify also meet the aggregation criteria set out in IFRS 8 segmental reporting. The Group's reportable segments under IFRS 8 are therefore as follows:

Focusrite	–	Sales of Focusrite 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 £216,000 for the year ended 31 August 2018 (2017: £145,000).

	Year ended 31 August	
	2018	2017
	£'000	£'000
Revenue from external customers		
Focusrite	52,193	44,552
Novation	20,066	18,862
Distribution	2,862	2,641
Total	75,121	66,055
Segment profit		
Focusrite	25,107	20,221
Novation	10,063	9,198
Distribution	795	711
	35,965	30,130
Central distribution costs and administrative expenses	(24,352)	(20,660)
Non-underlying items	329	-
Operating profit	11,942	9,470
Finance income	4	86
Finance costs	(274)	(44)
Profit before tax	11,672	9,512
Tax	(1,199)	(959)
Profit after tax	10,473	8,553

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

	2018	2017
	£'000	£'000
Non-current assets		
North America	81	52
Europe, Middle East and Africa	6,705	5,676
Rest of the World	528	604
Total non-current assets	7,314	6,332

Information about major customers

Included in revenues shown for 2018 is £31.2 million (2017: £28.0 million) attributed to the Group's largest customer, which is located in the USA. Amounts owed at the year end were £6.3 million (2017: £6.8 million).

3 PROFIT FOR THE YEAR

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

	Note	Year ended 31 August	
		2018	2017
		£000	£000
Net foreign exchange losses/(gains)		234	(84)
Research and development costs		1,524	1,120
Depreciation and impairment of property, plant and equipment		740	689
Profit on disposal of property, plant and equipment		(14)	(8)
Amortisation of intangibles		2,804	2,950
Operating lease rental expense		384	306
Cost of inventories recognised as an expense		39,093	35,493
Staff costs (excluding share-based payments)		8,969	6,478
Impairment loss recognised on trade receivables		29	(20)
Share-based payments charged to profit and loss		216	145

4 NON-UNDERLYING ITEMS

During the year ended 31 August 2018, the Directors considered the date from which amortisation of development costs should start and decided that it was more appropriate that the amortisation start date be assessed for each product developed rather than applying a single, albeit more prudent, rule for all. As a result, there has been an adjustment to the Income Statement to reduce the amortisation charged to date by £329,000 and this has been shown as a non-underlying item in the Income Statement.

5 TAX

	Year ended 31 August	
	2018	2017
	£'000	£'000
Corporation tax charges:		
Under/(over) provision in prior year	(160)	(13)
Current year	1,315	895
	1,155	882
Deferred taxation		
Current year	44	77
	1,199	959

Corporation tax is calculated at 19% (2017: 19.58%) of the estimated taxable profit for the year. Taxation for the US 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	
	2018	2017
	£'000	£'000
Current taxation		
Profit before tax on continuing operations	11,672	9,512
Tax at the UK corporation tax rate of 19% (2017: 19.58%)	2,218	1,862
Effects of:		
Expenses not deductible for tax purposes	48	20
R&D tax credit	(872)	(773)
Prior period adjustment - current tax	(160)	(113)
Prior period adjustment - deferred tax	-	(18)
Effect of change in standard rate of deferred tax	14	(19)
Overseas tax	(49)	-
Current tax charge for period	1,199	959

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) was substantively enacted on 25 October 2015. Further reduction to 18% (effective from 1 April 2020) was substantively enacted on 25 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly. The deferred tax asset at 31 August 2018 has been calculated based on these rates.

6 DIVIDENDS

The following equity dividends have been declared:

	Year to 31 August 2018	Year to 31 August 2017
Dividend per qualifying ordinary share	3.30p	2.70p

During the year, the Company paid an interim dividend in respect of the year ended 31 August 2018 of 1.00 pence per share.

On 20 November 2018, the Directors recommended a final dividend of 2.30 pence per share (2017: 1.95 pence per share), making a total of 3.30 pence per share for the year (2017: 2.70 pence per share).

7 EARNINGS PER SHARE

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

Earnings	Year ended 31 August	
	2018	2017
	£'000	£'000
Earnings for the purposes of basic and diluted EPS, being net profit for the period	10,473	8,553
Non-underlying items	(329)	-
Tax on non-underlying items	63	-
Total underlying profit for adjusted EPS calculation	10,207	8,553

Number of shares	Year ended 31 August	
	2018	2017
	Number	Number
	'000	'000
Weighted average number of ordinary shares for the purposes of basic EPS calculation	56,825	55,432
Effect of dilutive potential ordinary shares:		
EMI Scheme and unapproved share option plan	1,151	2,357
Weighted average number of ordinary shares for the purposes of diluted EPS calculation	57,976	57,789

EPS	Pence	Pence
Basic EPS	18.4	15.4
Diluted EPS	18.1	14.8
Adjusted basic EPS	18.0	15.4
Adjusted diluted EPS	17.6	14.8

At 31 August 2018, the total number of ordinary shares issued and fully paid was 58,111,639. This included 1,159,021 (2017: 2,546,845) shares held by the EBT to satisfy options vesting in future years. The operation of this EBT is funded by the Group so the EBT is required to be consolidated, with the result that the weighted average number of ordinary shares for the purpose of the basic EPS calculation is the net of the weighted average number of shares in issue (58,103,307) less the number of shares held by the EBT (1,278,311). 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.