



Focusrite Plc

Making Music Easy to Make

Focusrite Plc
Interim Report
Six months to 29 February 2016

Introduction

Focusrite is a global music and audio products group supplying hardware and software products used by professional and amateur musicians, which enables the high quality production of music.

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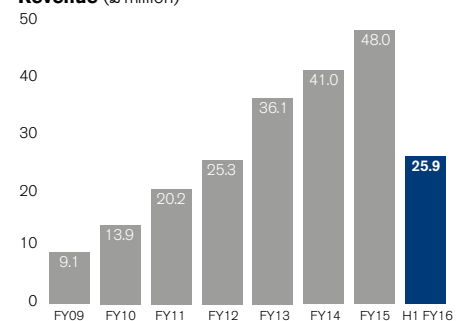
Business Highlights

"Once again, we have continued to grow in both of our main brands and across all regions. This growth is fuelled by our creation of the best quality products at each price point, our high performing people and our entrepreneurial culture. We believe our product and geographical diversification and significant addressable market give room for further growth in the future."

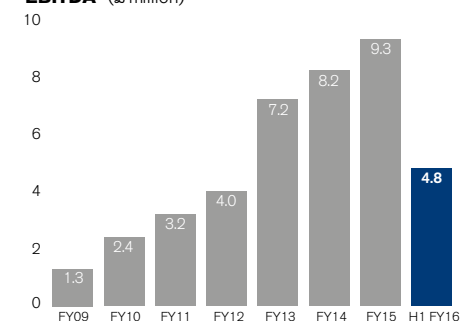
Philip Dudderidge,
Focusrite Executive Chairman

Financial Highlights

Revenue (£ million)



EBITDA¹ (£ million)



1 Adjusted for non-underlying items comprising £0.7 million IPO costs in HY15 and £0.5 million legal costs in HY16.

Business and Operating Review

Overview

Focusrite is pleased to report continued positive momentum for the six months ending 29 February 2016, with turnover and profit growing in line with expectations.

Total revenues accelerated during the reported period and overall grew to £25.9 million, an increase of 8.7% over the same period in the previous year. Operating profits also grew, with adjusted EBITDA up by 3.1% to £4.8 million over the corresponding period. This growth was driven by new product releases which were supported by positive industry and consumer acceptance. The Group continues to penetrate new market segments and price points.

Existing products continue to gain market share across our key geographies. In this regard, we were particularly pleased with the strong reported growth in Asia, emphasising the significant opportunity open to us to continue to grow our market share.

We are proud to report that for the fifth year, Focusrite was named as one of the '100 Best Small Companies to Work For' in the UK (Source: Sunday Times) and on 21 April 2016 (after the reported period ended) we were again awarded the prestigious Queen's Award for Enterprise in International Trade.

Financial highlights for the six months ended 29 February 2016

- Group revenue up by 8.7% to £25.9 million (HY15: £23.8 million)
- Adjusted EBITDA¹ up by 3.1% to £4.8 million (HY15: £4.7 million)
- Operating profit up by 6.7% to £3.2 million (HY15: £3.0 million)
- Profit before tax £2.4 million (HY15: £3.5 million), down due to change in fair value of foreign exchange contracts at each balance sheet date
- Basic earnings per share 4.0p (HY15: 5.5p)
- Adjusted diluted earnings² per share 4.6p (HY15: 6.0p)
- Net cash of £4.0 million (HY15: £4.7 million)
- Interim dividend of 0.65p recommended, up from 0.6p in HY15.

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

2 Adjusted for non-underlying items comprising £0.7 million IPO costs in HY15 and £0.5 million legal costs in HY16.

Operating review

The management team is committed to pursuing its stated goals of innovation, disruption, making music easier to make, and expanding our addressable market.

Segmental analysis – markets

	6 months to 29 February 2016 (unaudited) £'000	6 months to 28 February 2015 (unaudited) £'000	Year to 31 August 2015 (audited) £'000
Continuing operations			
USA	9,069	8,476	18,498
Europe, Middle East and Africa	12,064	11,659	21,460
Rest of World	4,747	3,663	8,071
Consolidated revenue	25,880	23,798	48,029



Focusrite

The number one
audio interface
brand in the world

Business and Operating Review continued

Regionally, the USA grew by 7.0% despite the region being affected by the slower than expected take-up of the new products, Clarett and LaunchPad Pro, early in the period. Since then consumer demand has improved and they have continued to gain market share at a good rate. The growth was also impacted by the intentional wind-down of sales of some existing products prior to their replacement in the second half.

Europe, Middle East and Africa grew by 3.5%. This was despite the weakening of the Euro from an average of €1.30 in HY15 to €1.37 in HY16. The new distributors announced at the year end are settling in well and delivering growth.

Finally, the Rest of World region grew by 29.6%, particularly in Asia where our Novation products, in particular, have proved very popular.

Segmental analysis – products

	6 months to 29 February 2016 (unaudited) £'000	6 months to 28 February 2015 (unaudited) £'000	Year to 31 August 2015 (audited) £'000
Revenue from external customers			
Focusrite	16,946	15,330	31,187
Novation	7,287	6,831	14,169
Distribution	1,647	1,637	2,673
Total	25,880	23,798	48,029

Existing products continue to perform well across the board and, in particular, the Scarlett range of interfaces remains the number one selling product in its market segment globally. Pleasingly, it continues to gain share, even four years since it was first introduced.

However, to continue to progress, we need to keep innovating and product development remains our engine for growth. We have already launched a number of new products in the first half of the year, including further products in the Clarett range and are firmly on track to deliver our targeted double digit number of new products by the year end.

Alongside engineering, innovation is paramount to success and we continue to spend between 6% and 7% of revenue on research and development so as to provide a constant stream of new and relevant products for our various channels.

All new products released to date have been delivered on or ahead of schedule and are gaining market share. The feedback via our sales channels and end customers has been positive with Clarett in particular being particularly well received.

We continue to strive to make music easier to make, and in this regard we are particularly pleased with the launch of Circuit, the innovative grid-based groove box, first shipped in September 2015, with feedback indicating high end-user satisfaction.

Circuit, from Novation, is essentially a synthesiser, grid and sequencer combination. It is designed to inspire and gets users making electronic music in minutes. It is a great example of how we are encouraging musicians to 'start something', the hardest part of song writing. We expect this product to expand our addressable market of potential musicians.

On the Focusrite side of the business, we are opening up new market segments with our RedNet product expansion. RedNet products enable numerous high-quality audio signals to be distributed via 'Audio over IP'-based technology, utilising common off-the-shelf networking infrastructure, in real time across a network and are targeted at the live sound and broadcast business-to-business markets. Clients include academic institutions, live concert venues, outside broadcasters, broadcast and recording studios and places of worship. We continue to invest in sales and marketing to support this new market segment, and early indications are positive. This is particularly pleasing given the higher price point and margins associated with this range.

Also within Focusrite, we recently announced the launch of a new high-end interface range, the Red Series. This range was announced in March 2016, with the first of the range, the Red 4Pre, shipping in April and we expect the revenue benefit to begin to be seen later in the year. The range offers unequalled sound quality, speed and ease of use for professional recording engineers and producers, and has been widely acclaimed in the trade media. With multiple connectivity options, the Red Series offers unprecedented versatility in any professional recording environment.

So what about disruption? Our latest initiative is very exciting in this regard. We have recently announced the launch of Blocs Wave, the second iOS app from our London software team. It has just started selling with strong support from Apple and it makes it easier for musicians to create their own sounds and songs from scratch on any iOS smartphone or tablet.

The app has been designed for everybody to use, whether a professional or beginner, and is highly intuitive. We are excited about its prospects.

Distribution and logistics initiatives

In March 2016, we launched Focusrite's first webstore in the UK, to sell the iTrack line of iOS recording devices, as well as refurbished products direct to end-users. It is early days, but we will watch the progress of this new channel with interest.

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

In addition, we are continuously fine-tuning our distributor channels, upgrading and introducing new partners where necessary to ensure continued growth.

Business and Operating Review continued

Financial review

Revenue and profit

Driven principally by new launches and underpinned by strong sales of existing products, total Group revenues rose to £25.9 million, up 8.7% on the previous year.

Pleasingly, we maintained a similar gross margin as the previous year at around 39.8% (HY15: 39.4%). The growth in EBITDA was affected by foreign exchange (explained further below under 'Currency impact') and increased administrative expenses, particularly marketing campaign costs in support of the larger number of new product releases. Overall, adjusted EBITDA for the period was £4.8 million, an increase of 3.1%.

The Group has also provided for a non-recurring exceptional cost of £537,000 on legal cases relating to intellectual property and distribution contracts, which have no significant effect on our ongoing business and which have previously been disclosed as contingent liabilities in the Annual Report. The legacy intellectual property issues have now been resolved. The company is vigorously defending its position with one remaining ongoing distributor claim and continues to seek appropriate counsel.

Net financing costs were higher as we incurred a £0.7 million charge relating to the fair value of certain FX hedging instruments and the recognition of the corresponding FX hedging liability carried forward. This will be replaced by realised gains or losses as the hedging instruments are settled in the second half. Last year the equivalent was a gain of £0.5 million, which reversed as the FX hedging contracts were settled in the second half.

Overall this resulted in a reported profit before tax of £2.4 million versus £3.5 million in the prior year.

Our tax charge continued to benefit from research and development tax credits, resulting in an effective tax rate of approximately 12%.

Currency impact

Exchange rates	6 months to 29 February 2016	6 months to 28 February 2015	Year to 31 August 2015
Average \$:£	1.50	1.58	1.56
Average €:£	1.37	1.30	1.35
Period end \$:£	1.43	1.50	1.54
Period end €:£	1.29	1.38	1.37

While the reported revenue growth was 8.7%, the revenue growth at constant exchange rates was 5.6%.

The primary reason for this was that the US Dollar strengthened from an average rate of \$1.58:£1 (in HY15) to \$1.50:£1 in this period. Approximately half of the Group's revenue and nearly all of the cost of sales are denominated in US Dollars, so this strengthening increased the revenue but had little effect on the gross profit.



Novation

Inventing the
instruments
that help shape
electronic music

Business and Operating Review continued

For the Euro, approximately 27% of our revenue and very few costs are denominated in Euro, so any movement in that currency has a greater financial impact on profit. The Group converts the Euro revenue into its functional currency, Sterling, and enters into forward contracts (typically covering 75% of the forecast income) to mitigate against currency movements. In the first half of FY15, the average exchange rate was €1.30:£1 with hedging protection for the majority of the Euro cash flows at €1.23:£1. In effect, the weighted average Euro rate was approximately €1.25:£1. In the current period the average exchange rate was €1.37:£1 with hedging contracted for the majority of the Euro cash flows at an average of €1.35:£1. In effect, the weighted average Euro rate was approximately €1.35:£1.

Therefore, while the US Dollar strengthened by 5%, the weighted Euro rate weakened by 7%, thereby limiting the total positive currency impact of the US Dollar on revenue and acting as a drag on profit growth.

Balance sheet

Inventories increased to £10.7 million (HY15: £7.8 million). This is partially attributable to the higher sales but mostly to higher stocks of recently introduced products to meet anticipated demand and five to six month lead times. We are already seeing sales increasing and so would expect stock levels of these new products to fall.

Debtors also increased to £9.8 million (HY15: £6.5 million). Again this was due to higher revenues, coupled with the impact of introducing new, longer credit terms for our major US distributor to help support new product distribution.

Creditors and accruals correspondingly rose to £8.7 million (HY15: £7.5 million). These are mainly an increase in trade creditors due to a higher purchase of stock. We have not experienced any significant changes in our creditor terms.

Cash flow

Cash at the period end stood at £4.0 million (HY15: £4.7 million). The negative cash flow was due largely to increases in stock and debtors. In particular, the major part of the increase in debtors was due to an increase in credit terms for the Group's US distributor. The Group remains cash generative over the medium term and has significant credit headroom in place due to the committed five-year £10 million revolving credit facility ('RCF') with HSBC, which was completed during the period.

Dividends

The Group has a progressive dividend policy in place and the Board has approved an interim dividend of 0.65p, up 8.3% on prior year.

Outlook

Since the half year end, March and April have been busy, productive months and revenue has continued to grow in line with expectations. The new Focusrite Red product range has started shipping, existing products continue to sell well and we are excited about further significant new products due for release in the second half of the financial year.

Dave Froker

Chief Executive Officer

Jeremy Wilson

Chief Financial Officer

Condensed Consolidated Income Statement

For the six months ended 29 February 2016

	Note	6 months to 29 February 2016 (unaudited) £'000	6 months to 28 February 2015 (unaudited) £'000	Year to 31 August 2015 (audited) £'000
Revenue		25,880	23,798	48,029
Cost of sales		(15,575)	(14,429)	(29,381)
Gross profit		10,305	9,369	18,648
Administrative expenses		(7,150)	(6,411)	(12,328)
Adjusted EBITDA (non-GAAP measure)		4,821	4,677	9,302
Depreciation and amortisation		(1,129)	(1,015)	(2,278)
Adjusted operating profit		3,692	3,662	7,024
Non-underlying items		(537)	(704)	(704)
Operating profit		3,155	2,958	6,320
Finance income		2	528	164
Finance costs		(725)	-	-
Profit before tax		2,432	3,486	6,484
Income tax expense	4	(292)	(622)	(1,022)
Profit for the period from continuing operations		2,140	2,864	5,462
Earnings per share				
From continuing operations				
Basic (pence per share)	7	4.0	5.5	10.4
Diluted (pence per share)	7	3.7	4.8	9.3

Condensed Consolidated Statement of Other Comprehensive Income

For the six months ended 29 February 2016

	6 months to 29 February 2016 (unaudited) £'000	6 months to 28 February 2015 (unaudited) £'000	Year to 31 August 2015 (audited) £'000
Profit for the period	2,140	2,864	5,462
Exchange differences on translation of foreign operations	38	–	–
Total comprehensive income for the period	2,178	2,864	5,462
Profit attributable to:			
Equity holders of the Company	2,178	2,864	5,462
	2,178	2,864	5,462

Condensed Consolidated Statement of Financial Position

As at 29 February 2016

	Note	29 February 2016 (unaudited) £'000	28 February 2015 (unaudited) £'000	31 August 2015 (audited) £'000
Assets				
Non-current assets				
Goodwill		419	419	419
Other intangible assets		4,006	3,172	3,522
Property, plant and equipment		1,416	1,170	1,323
Deferred tax asset		–	34	–
Total non-current assets	3	5,841	4,795	5,264
Current assets				
Inventories		10,732	7,839	8,633
Trade and other receivables		9,809	6,496	7,737
Other investments including derivatives	8	–	585	223
Cash and cash equivalents	8	3,952	4,725	6,173
Total current assets		24,493	19,645	22,766
Total assets		30,334	24,440	28,030
Equity and liabilities				
Capital and reserves				
Share capital		58	58	58
Merger reserve		14,595	14,595	14,595
Merger difference reserve		(13,147)	(13,147)	(13,147)
Translation reserve		32	(6)	(6)
Treasury reserve		(5)	(6)	(6)
Retained earnings		18,705	14,324	16,984
Equity attributable to owners of the Company		20,238	15,818	18,478
Total equity		20,238	15,818	18,478
Current liabilities				
Trade and other payables		8,745	7,463	8,406
Current tax liabilities		–	400	403
Derivative financial instruments	8	562	–	–
Total current liabilities		9,307	7,863	8,809
Non-current liabilities				
Deferred tax		789	759	743
Total liabilities		10,096	8,622	9,552
Total equity and liabilities		30,334	24,440	28,030

Condensed Consolidated Statements of Changes in Equity

For the six months ended 29 February 2016

	Share capital £'000	Merger reserve £'000	Merger difference reserve £'000	Translation reserve £'000	Treasury share reserve ¹ £'000	Share-based payment reserve £'000	Retained earnings ² £'000	Total £'000
Balance at 1 September 2015	58	14,595	(13,147)	(6)	(6)	262	16,722	18,478
Profit for the period	-	-	-	-	-	-	2,140	2,140
Other comprehensive income for the period	-	-	-	38	-	-	-	38
Total comprehensive income for the period	-	-	-	38	-	-	2,140	2,178
Transactions with owners of the Company:								
Shares from EBT exercised	-	-	-	-	1	-	153	154
Share-based payments	-	-	-	-	-	60	-	60
Dividends paid	-	-	-	-	-	-	(632)	(632)
Balance at 29 February 2016	58	14,595	(13,147)	32	(5)	322	18,383	20,238

For the six months ended 28 February 2015

	Share capital £'000	Merger reserve £'000	Merger difference reserve £'000	Translation reserve £'000	Treasury share reserve ¹ £'000	Share-based payment reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 September 2014	52	-	1,448	(6)	-	140	11,574	13,208
Profit for the period	-	-	-	-	-	-	2,864	2,864
Total comprehensive income for the period	-	-	-	-	-	-	2,864	2,864
Transactions with owners of the Company:								
Issue of ordinary shares	6	-	-	-	-	-	-	6
Ordinary shares issued to the EBT	-	-	-	-	(6)	-	-	(6)
Share for share exchange	-	14,595	(14,595)	-	-	-	-	-
Share-based payments	-	-	-	-	-	60	-	60
Dividends paid	-	-	-	-	-	-	(314)	(314)
Balance at 28 February 2015	58	14,595	(13,147)	(6)	(6)	200	14,124	15,818

1 The reserve for the Company's treasury shares comprises the cost of the Company's shares held by the Group. At 29 February 2016, the Employee Benefit Trust held 4,627,861 of the Company's shares (six months ended 28 February 2015: 5,676,000).

2 Of the retained earnings totalling £18,383,032, £151,980 relates to the gain on exercise of share options from the EBT and is therefore non-distributable.

For the year ended 31 August 2015

	Share capital £'000	Merger reserve £'000	Merger difference reserve £'000	Translation reserve £'000	Treasury share reserve £'000	Share-based payment reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 September 2013	52	-	1,448	(6)	-	140	11,574	13,208
Profit for the period	-	-	-	-	-	-	5,462	5,462
Total comprehensive income for the period	-	-	-	-	-	-	5,462	5,462
Transactions with owners of the Company:								
Issue of ordinary shares	6	-	-	-	-	-	-	6
Ordinary shares issued to the EBT	-	-	-	-	(6)	-	-	(6)
Share for share exchange	-	14,595	(14,595)	-	-	-	-	-
Share-based payments	-	-	-	-	-	122	-	122
Dividends paid	-	-	-	-	-	-	(314)	(314)
Balance at 31 August 2015	58	14,595	(13,147)	(6)	(6)	262	16,722	18,478

Consolidated Statement of Cash Flow

For the six months ended 29 February 2016

Note	6 months to 29 February 2016 £'000	6 months to 28 February 2015 £'000	Year to 31 August 2015 £'000
Cash flows from operating activities			
Profit for the period before non-underlying items	2,677	3,568	6,166
Non-underlying items	5 (537)	(704)	(704)
Profit for the period	2,140	2,864	5,462
Adjustments for:			
Income tax expense	292	622	1,022
Net finance (income)/charge	723	(528)	(164)
(Profit)/loss on disposal of property, plant and equipment	-	-	(1)
Amortisation of intangibles	914	829	1,902
Depreciation of property, plant and equipment	215	186	368
Share-based payment charge	60	60	122
Operating cash flow before movements in working capital	4,344	4,033	8,711
(Increase) in trade and other receivables	(1,988)	(129)	(1,370)
(Increase) in inventories	(2,099)	(1,243)	(2,037)
Increase in trade and other payables	339	461	1,718
Operating cash flow before interest and tax paid	596	3,122	7,022
Cash outflow in respect of non-underlying items	90	1,086	1,186
Operating cash flow before non-underlying items, interest and tax paid	686	4,208	8,208
Net interest (paid)/received	(89)	3	6
Income tax paid	(732)	(459)	(838)
Cash generated by operations	(225)	2,666	6,190
Net foreign exchange movement	189	70	53
Net cash inflow/(outflow) from operating activities	(36)	2,736	6,243
Cash flows from investing activities			
Purchases of property, plant and equipment	(308)	(459)	(782)
Purchases of intangible assets	(1,399)	(1,355)	(2,778)
Proceeds from disposal of intangible assets	-	-	1
Net cash used in investing activities	(1,707)	(1,814)	(3,559)
Cash flows from financing activities			
Issue of equity shares	154	-	-
Equity dividends paid	(632)	-	(314)
Net cash used in financing activities	(478)	-	(314)
Net increase/(decrease) in cash and cash equivalents	(2,221)	922	2,370
Cash and cash equivalents at beginning of year	6,173	3,803	3,803
Cash and cash equivalents at end of year	3,952	4,725	6,173

Notes to the Condensed Consolidated Interim Financial Statements

1. Basis of preparation and significant accounting policies

Focusrite Plc (the 'Company') is a company incorporated in the United Kingdom. The condensed consolidated interim financial statements ('interim financial statements') as at and for the six months ended 29 February 2016 comprised the Company and its subsidiaries (together referred to as the 'Group').

The Group is a business engaged in the development, manufacture and marketing of professional audio and electronic music products.

Statement of compliance

The interim financial statements are for the six months ended 29 February 2016 and are presented in pounds Sterling ('GBP'). This is the functional currency of the Group. The interim financial report has been prepared in accordance with the International Financial Reporting Standards ('IFRS'), International Accounting Standards ('IAS') and interpretations currently endorsed by the International Accounting Standards Board ('IASB') and its committees as adopted by the EU and as required to be adopted by AIM listed companies. AIM listed companies are not required to comply with IAS 34 'Interim Financial Reporting' and accordingly the Company has taken advantage of this exemption. They do not include all the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 August 2015.

These interim financial statements were authorised for issue by the Company's Board of Directors on 26 April 2016.

Significant accounting policies

The interim financial statements have been prepared in accordance with the accounting policies adopted in the Group's financial statements for the year ended 31 August 2015.

1.1 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and subsidiaries controlled by the Company drawn up to 29 February 2016.

1.2 Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases.

Notes to the Condensed Consolidated Interim Financial Statements continued

1.3 Going concern

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

1.4 Earnings per share

The Group presents basic and diluted earnings per share ('EPS') data for its ordinary shares. Basic EPS is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. For diluted EPS, the weighted average number of ordinary shares is adjusted for the dilutive effect of potential ordinary shares arising from the exercise of granted share options.

For the period reported, the Group has chosen to present an adjusted EPS (note 7) calculation with profit adjusted for non-underlying items to aid comparability and to provide a consistent measure of performance.

1.5 Non-underlying items

Non-underlying items are those items that are unusual because of their size, nature or incidence. The Directors consider that these items should be separately identified to ensure a full understanding of the Group's results.

1.6 Accounting estimates and judgements

In application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by the Directors in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those applied to the Group's financial statements for the year ended 31 August 2015.

1.7 Foreign currencies

Transactions in foreign currencies are translated to the functional currency of the Group at the foreign exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the period end date. Foreign exchange differences arising on the translation are recognised in the consolidated income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transactions.

1.7 Foreign currencies continued

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency, Sterling, at the period end foreign exchange rate ruling at the reporting date. The revenue and expenses of foreign operations are translated at an average rate for the period where this rate approximates to the foreign exchange rate ruling at the dates of the transaction.

Exchange differences arising from the translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve.

2. Revenue

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

	6 months to 29 February 2016 (unaudited) £'000	6 months to 28 February 2015 (unaudited) £'000	Year to 31 August 2015 (audited) £'000
Continuing operations			
USA	9,069	8,476	18,498
Europe, Middle East and Africa	12,064	11,659	21,460
Rest of World	4,747	3,663	8,071
Consolidated revenue	25,880	23,798	48,029

3. Operating segments

Products and services from which reportable segments derive their revenues

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

Focusrite	–	Sales of Focusrite branded products
Novation	–	Sales of Novation branded products
Distribution	–	Distribution of third-party brands including KRK speakers, Stanton, Cerwin Vega, Cakewalk, sE Electronics

Notes to the Condensed Consolidated Interim Financial Statements continued

3. Operating segments continued

The revenue and profit generated by each of the Group's operating segments are summarised as follows:

	6 months to 29 February 2016 (unaudited) £'000	6 months to 28 February 2015 (unaudited) £'000	Year to 31 August 2015 (audited) £'000
Revenue from external customers			
Focusrite	16,946	15,330	31,187
Novation	7,287	6,831	14,169
Distribution	1,647	1,637	2,673
Total	25,880	23,798	48,029
Segment profit			
Focusrite	7,986	7,090	14,221
Novation	3,670	3,519	6,842
Distribution	557	528	846
	12,213	11,137	21,909
Central distribution costs and administrative expenses	(8,521)	(7,475)	(14,885)
Adjusted operating profit before non-underlying items	3,692	3,662	7,024
Non-underlying items	(537)	(704)	(704)
Operating profit	3,155	2,958	6,320
Finance income	2	528	164
Finance costs	(725)	–	–
Profit before tax	2,432	3,486	6,484
Tax	(292)	(622)	(1,022)
Profit after tax	2,140	2,864	5,462

Segment profit represents the profit earned by each segment without allocation of the share of central administration costs including Directors' salaries, finance income and finance costs, and income tax expense. This is the measure reported to the Group's Chief Executive for the purpose of resource allocation and assessment of segment performance.

Central administration costs comprise principally the employment related costs and other overheads incurred by the Group. Also included within central administration costs is the charge relating to the share option scheme of £60,000 for the six-month period to 29 February 2016 (six months to 28 February 2015: £60,000; year to 31 August 2015: £122,200).

3. Operating segments continued

Segment net assets and other segment information

Management does not make use of segmental data relating to net assets and other balance sheet information for the purposes of monitoring segment performance and allocating resources between segments. Accordingly, other than the analysis of the Group's non-current assets by region shown below, this information is not available for disclosure in the consolidated financial information.

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

	29 February 2016 (unaudited) £'000	28 February 2015 (unaudited) £'000	31 August 2015 (audited) £'000
Non-current assets			
USA	26	25	29
Europe, Middle East and Africa	5,141	4,353	4,683
Rest of World	674	417	552
Total non-current assets	5,841	4,795	5,264

4. Taxation

The tax charge for the six months to 29 February 2016 is based on the estimated tax rate for the full year in each jurisdiction.

5. Non-underlying items

During the six months to 29 February 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. In December 2014, the Group floated on the London Stock Exchange AIM market. Non-recurring IPO related costs totalled £0.7 million, which were charged to the income statement for the period to 28 February 2015 and year ended 31 August 2015.

6. Dividends

The following equity dividends have been declared:

	6 months to 29 February 2016 (unaudited)	6 months to 28 February 2015 (unaudited)	Year to 31 August 2015 (audited)
Dividend per qualifying ordinary share	0.65p	0.6p	1.8p

During the period, the Company paid a final dividend in respect of the year ended 31 August 2015 of 1.2 pence per share, amounting to £631,170.

Notes to the Condensed Consolidated Interim Financial Statements continued

7. Earnings per share

Reported earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

	6 months to 29 February 2016 (unaudited) £'000	6 months to 28 February 2015 (unaudited) £'000	Year to 31 August 2015 (audited) £'000
Earnings			
Earnings for the purposes of basic and diluted earnings per share being net profit for the period	2,140	2,864	5,462
	6 months to 29 February 2016 number '000	6 months to 28 February 2015 number '000	Year to 31 August 2015 number '000
Number of shares			
Weighted average number of ordinary shares for the purposes of basic earnings per share calculation	52,877	52,399	52,399
Effect of dilutive potential ordinary shares	5,696	7,382	6,416
Weighted average number of ordinary shares for the purposes of diluted earnings per share calculation	58,573	59,781	58,815
Earnings per share	Pence	Pence	Pence
Basic earnings per share	4.0	5.5	10.4
Diluted earnings per share	3.7	4.8	9.3

At 29 February 2016, the total number of ordinary shares issued and fully paid was 58,075,000. This included 4,627,861 shares held by the Employee Benefit Trust ('EBT') to satisfy options vesting in future years. The operation of this Employee Benefit Trust 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 earnings per share calculation is the net of the total number of shares in issue (58,075,000) less the weighted average number of shares held by the Employee Benefit Trust (5,098,003). It should be noted that the only right relinquished by the Trustees of the Employee Benefit Trust is the right to receive dividends. In all other respects, the shares held by the Employee Benefit Trust 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.

7. Earnings per share continued

Adjusted earnings per share

	6 months to 29 February 2016 (unaudited) £'000	6 months to 28 February 2015 (unaudited) £'000	Year to 31 August 2015 (audited) £'000
Earnings			
Profit for the financial period	2,140	2,864	5,462
Non-underlying items	537	704	704
Total underlying profit for adjusted earnings per share calculation	2,677	3,568	6,166
	6 months to 29 February 2016 number '000	6 months to 28 February 2015 number '000	Year to 31 August 2015 number '000
Number of shares			
Weighted average number of ordinary shares for the purposes of basic earnings per share calculation	52,877	52,399	52,399
Effect of dilutive potential ordinary shares	5,696	7,382	6,416
Weighted average number of ordinary shares for the purposes of diluted earnings per share calculation	58,573	59,781	58,815
Earnings per share	Pence	Pence	Pence
Adjusted basic earnings per share	5.1	6.8	11.8
Adjusted diluted earnings per share	4.6	6.0	10.5

8. Financial instruments

The fair value of the Group's derivative financial instruments is calculated using the quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing model for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contract.

IFRS 13 Fair value measurements requires the Group's derivative financial instruments to be disclosed at fair value and categorised in three levels according to the inputs used in the calculation of their fair value.

Financial instruments carried at fair value should be measured with reference to the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the Condensed Consolidated Interim Financial Statements continued

8. Financial instruments continued

The financial instruments held by the Group that are measured at fair value all related to financial assets/(liabilities) measured at fair value through profit and loss ('FVTPL') using a Level 2 valuation method.

The fair value of financial assets and liabilities held by the Group are:

	29 February 2016 (unaudited) £'000	28 February 2015 (unaudited) £'000	31 August 2015 (audited) £'000
Financial assets			
Cash and cash equivalents	3,952	4,725	6,173
Forward exchange contracts	–	585	223
Trade receivables	7,306	5,295	6,464
	11,258	10,605	12,860
Financial liabilities			
Fair value through profit and loss ('FVTPL')			
Forward exchange contracts	562	–	–
Amortised cost			
Trade payables	5,307	3,995	5,197
	5,869	3,995	5,197

Independent Review Report to Focusrite Plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly report for the six months ended 29 February 2016 which comprises the condensed consolidated state of profit and loss and other comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flow and the related explanatory notes. We have read the other information contained in the half-yearly report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly report in accordance with the AIM Rules.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly report has been prepared in accordance with the recognition and measurement requirements of IFRSs as adopted by the EU.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independent Review Report to Focusrite Plc *continued*

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly report for the six months ended 29 February 2016 is not prepared, in all material respects, in accordance with the recognition and measurement requirements of IFRSs as adopted by the EU and the AIM Rules.

Peter Meehan

Senior Statutory Auditor

for and on behalf of KPMG LLP
Chartered Accountants
One Snowhill
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26 April 2016

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