Focusrite Audio Engineering Limited

Annual report and financial statements

31 August 2020

Company registered number: 02357989

Contents

Strategic report

The directors present their annual report and the audited financial statements for the year ended 31 August 2020.

Introduction

I am extremely pleased to share with you our results for the financial year ended 31 August 2020. The Company has achieved another record-breaking year of financial metrics, driven by organic growth and expansion in our traditional product lines.

FY20 was a year that required us to remain focused on our key growth objectives while carefully watching all the numerous macroeconomic issues, including COVID-19, and ensuring we were taking the correct steps to mitigate risk and, where applicable, maximise opportunity. This past year saw increased investment in people, technology and tools to ensure our roadmap plans were achievable and to help us make key decisions across the Company, driving further growth.

Our employee base has now grown to over 260 strong and we continue to invest in our people, promoting from within as well as seeking out new top talent in all divisions across the Company. Our employee base is comprised of a highly passionate group of individuals, many of whom are also accomplished DJs, musicians, audio engineers, live sound specialists and podcasters in their own right. We are very fortunate to have so many people who are passionate about music making and audio production and who bring to work real life experiences and feedback. This experience is invaluable.

COVID-19 brought many unique challenges to the Company and our individual employees. Employee wellbeing has always been a top priority and the Company rose to the challenges that COVID-19 presented: providing the tools, support and flexibility to allow all employees to work at home effectively in a short amount of time. Additionally, our office site was re-worked to ensure proper social distancing and hygiene for the employees that have spent some time there. We are confident that we can carry on with most employees working at home and are prepared to begin bringing more employees back into the office environment when the local government guidance permits.

Our Operations

The Company's products are sold in approximately 160 territories all over the world. Our routes to market continue to be refined as macroeconomic conditions change as well as end user buying behaviours. We utilise a mix of retailers (online as well as traditional brick and mortar shops); distributors in selected countries where localisation, local support and supply to the local channel are factors; and direct to end user via our own e-commerce platform and in-app software purchases.

Last year we sold over 1.2 million physical products and had over 1.2 million downloads of our various software titles. Focusrite hardware and software products are all designed in the UK and assembled using our manufacturing partners in China and Malaysia.

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.

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

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

Operating review of another record year

The Company has delivered another successful year of increased revenues, as well as managing our cost base closely and remaining focused on cash generation. Revenue for the Company grew by 23.2%, and adjusted EBITDA increased 46.1% over the FY19 result.

There are many factors that contributed to this successful outcome: new product introductions; refined targeted marketing initiatives; the evolution in our routes to market approach; and continued success for both legacy products and products released in the previous fiscal year. This included new products in the Novation category, refreshing the Launchpad and Launchkey ranges, continuing to expand our direct e-commerce efforts globally and material growth of our 3rd generation Scarlett interfaces that were released in late 2019.

Throughout this year we have encountered a number of events, such as ongoing Brexit negotiations, US-China tariffs, and the COVID-19 pandemic, that have required careful consideration and actions to mitigate risk and where possible, maximise opportunity. While all of these events are ongoing, the Group is confident in our level of preparedness and ability to adapt where necessary.

Impact of COVID-19

As for most companies, 2020 has proved to be a very unusual year that has witnessed dramatic impacts on many peoples' lives, as well as on many of our core solutions. Pre-COVID-19, the market was experiencing healthy growth in the various sectors in which we participate. Home recording was strong with many new customers purchasing Novation and Focusrite products for their music making, podcasting and streaming workflows. Professional audio and content creation were still tracking at record levels to keep up with all of the new content providers and demand from the many different music streaming services.

COVID-19 first became an issue for Focusrite in late January in China, when workers did not return to the contract manufacturers and warehouses as planned post-Chinese New Year. This impacted production schedules and our ability to get finished products out of the Chinese warehouses. This impact was mitigated by our second manufacturing unit in Malaysia, as the two countries were not simultaneously in lockdown. Therefore, when one unit was closed, the other was operational. Fortunately, the Chinese warehouses came back online after a short amount of time and production began to return to normal shortly after.

Within Focusrite, we witnessed a marked increase in demand for our home recording solutions. As countries went into lockdown, many people looked to music creation, podcasting, and streaming solutions for remote working and much of the Focusrite portfolio caters to these workflows. The lockdown environment shifted the purchasing balance for consumers from bricks and mortar stores towards e-commerce offerings. To an extent, the damage that this caused to the brick and mortar network in many countries continues to this day. Focusrite responded to these unique challenges in an admirable way. This involved ramping up production, leveraging routes to market that had strong e-commerce capabilities, pivoting on marketing plans as trade shows closed, and focusing primarily on at home production workflows.

Throughout all of that, the various businesses had to react to new work-at-home rules enforced by local governments; transitioning many of the employee base to remote working across most departments. Because of the leadership team's swift reaction to the changing environment combined with numerous investments we have made over the past few years in IT, enhanced systems, and new processes, the Company was able to react rapidly and effectively. Additionally, with only a few small exceptions, the committed new products for the second half were launched inside their expected time frames.

Segmental Review

Focusrite

The Focusrite branded product family, which includes Scarlett and Clarett audio interfaces, had a tremendously strong year, achieving a 34% year-on-year increase in revenue. Demand for the ability to create high-quality music and audio content, such as podcasting in home/remote locations, was strong, especially during the COVID-19 lockdowns. Additionally, the desire by many to have high fidelity audio for streaming services and video conferencing continued to grow and peaked during the lockdown period. Despite lockdowns having abated in most areas, we have continued to see higher than normal growth and demand for Focusrite interfaces. We will wait and see what impact the new lockdowns will have on demand in the next financial year, but at this stage it is too early to draw any conclusions.

Focusrite Pro

Focusrite Pro represents a suite of professional products that provide professional, exceptional quality audio and scalability for any audio workflow. The Red series, our premium line of audio interfaces, offers a multitude of connectivity options to meet the needs of any audio professional. Likewise, RedNet is the Group's Audio over Internet Protocol (AoIP) set of solutions that allows large scale audio connectivity and routing over standard ethernet networks to meet any production needs. The portfolio, primarily designed for enterprise level customers and facilities across the live sound, broadcast, installed sound and post-production market, had a challenging year. As many live events were postponed or cancelled, as well as many production facilities, theatres, universities closed, a large portion of Pro's pipeline projects were delayed or in some cases, cancelled. As with Martin Audio, the Group is starting to see signs of recovery in some sectors. Additionally, the Focusrite Pro team has a number of new products shipping in the first half of this financial year which are expected to add incremental value.

Novation

The Novation brand and portfolio is all about the creation and production of electronic music. Electronic music (and its many genres) continues to grow and is democratising the art of music creation. Novation offers a wide range of solutions to address these genres for everyone from the absolute beginner through to professionals. The Novation brand enjoyed several major product launches over the year, resulting in revenue growth of 12% for the year.

The Novation family of products can be segmented into controllers, grooveboxes and synthesisers. Novation controllers, which are comprised of Launchpad, our grid-based controller for both creating and performing music, and Launchkey, our family of keyboard controllers, had a strong year with 21% growth. This was fuelled primarily by new product introductions as well as some COVID-19 boost as some customers added these components to their home studios. The Novation family of synthesisers has been core to the brand since inception and have developed a reputation with electronic musicians as cutting edge, creative and versatile instruments. Our flagship synth, Summit, introduced at the end of last year, has won many accolades in the industry. The other products in the portfolio, which include Peak and Bass Station, continue to enjoy strong customer attraction and industry appreciation.

Ampify

Our Ampify software division, based in London, develops powerful but brilliantly simple music creation apps for iOS, Mac and Windows platforms. To date, while the revenue is modest, the Ampify apps have been downloaded more than 12.5 million times, which has proven to be a highly effective marketing net to attract new customers. Inside this year, Ampify apps were downloaded 1.2 million times, resulting in approximately 900,000 purchases of content from our in-app commerce engine. Additionally, this year marked the introduction of Ampify's first cross-platform music creation application for Mac and Windows, Ampify Studio. With a simple yet powerful user interface and a large library of content in many styles of music, Ampify Studio is the perfect music creation application for beginners and those that want to create music without a steep tech learning curve. The application is free, but also offers a subscription to the content library, which has over 10,000 samples of drums, bass, guitar, vocals, beats and effects. The library offers fresh new content every month, developed by up and coming artists in a multitude of styles and genres. Ampify Studio will continue to see feature development to address the needs of our core music making customers across the Novation and Focusrite brands.

Routes to market

I am once again pleased to report that our success this year was global, with all major sales and regions experiencing growth year-on-year. A big part of our success was certainly our investment in people in the local regions and a big emphasis on localised marketing content and demand generation. Additionally, our own e-commerce store experienced record growth of 152% year over year, albeit from a relatively small base. Our direct e-commerce strategy continues to evolve as a larger part of our overall business, especially as we add more software and content offerings to our customer base.

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 16% rise in revenue when compared with last year. Europe, Middle East and Africa experienced 34% growth. Rest of World finished the year with 15% year-on-year growth.

North America

The US market, which accounts for approximately 41% of total Company revenue, grew by approximately 16% year-on-year. These efforts are supplemented with a world class support team which is over 20 strong. Our office in the USA is based in Los Angeles with remote workers living in various states across the country.

EMEA

Europe, Middle East and Africa (EMEA), which represents approximately 44% of the Group's revenue, also had a successful year growing 34%. Two-tiered distribution has traditionally been the majority of the Company's route to market. However, this year saw a dramatic shift to direct online resellers that have continent-wide reach. This was mainly caused by many brick and mortar stores (and consequently regional distributors) closing during the various regional COVID-19 lockdowns. As more regions have come out of lockdown, the Company has seen the local brick and mortar and regional distribution business come back to normal levels.

ROW

The rest of the world (ROW) region comprises Asia Pacific (APAC) and Latin America (LATAM). Overall, ROW represents approximately 16% of the Group's revenue and grew 15% year over year.

Within APAC, the success was primarily driven by more sales and marketing professionals employed and residing in the region and more localisation efforts.

LATAM continues to be an area of investment for the Group. This year, we added to our management team with hires in Brazil and Mexico. This team focused on local events, marketing collateral and leveraging the scale of the Focusrite portfolio. The result was strong growth year-on-year for the Company's products. We recognise the region as an area of strong growth potential, through improved distribution routes to market as well as through our own e-store.

Growth drivers

The Company remains passionately focused on being a great place for our employees to work and collectively execute on our growth strategy: growing our core base; increasing the lifetime value for our customers; and expanding into new market segments. By focusing on our employees and our customers, we will continue to innovate and grow our audience of customers across the globe. Last year saw the introduction of over 13 new products across the Focusrite business and numerous software/firmware upgrades to existing products to enable new workflows and enhance our customer's experience. Lots of emphasis is placed on the out-of-box experience and customer support systems that are in place to help customers across the globe with any challenges or questions. Inside Focusrite, our new onboarding journey for Focusrite Scarlett, Novation Launchpad and Launchkey was well received by new customers, raising our Net Promoter Score (NPS) score from an already prestigious 69% to 74% this year.

As discussed previously, the development of our routes to market is an ever-evolving process and we continually look to invest in channels with higher gross margin, and initiatives that allow us to transact in local markets around the world in a way that resonates with the local end user. Our investment in Latin America is a perfect example of this: over the last year we have invested in local sales and marketing professionals across Mexico and Brazil which has netted the Company an increase of 32% in our FAEL business year-on-year. An important aspect of our growth is risk mitigation, helped greatly by the diversification of the manufacturing of the Focusrite products, and the diversification of markets in which we trade.

Summary and outlook

Our roadmap remains strong, with a number of new, innovative releases coming across this year from the various business units. Additionally, we will continue to refine and support existing products to grow our share in those spaces and enhance customer loyalty. Overall, even as we face unprecedented challenges like COVID-19, Brexit and other macroeconomic issues, our growth strategy continues to prove to be the right course for the Company.

Since the year end, demand for most of our Group products has remained high and revenue is substantially ahead of the level achieved in the similar, pre-COVID-19, period of the prior year. We remain conscious of global factors that could adversely impact our operations such as COVID-19, Brexit, and US tariffs and will continue to monitor these and other obstacles, reacting accordingly.

We are also aware that changes in technology and new customer requirements can emerge quickly, and many of the macroeconomic issues can impact our distribution channel and end users. We have shown over the past years that we are capable of navigating successfully through these risk factors, reacting in a measured and methodical way to protect our revenue, gross margin and cash generation.

I am extremely proud of our accomplishments this past year and remain impressed by the attitude and performance of our employees through some very uncertain times. We look forward to another year of product innovation with many new products and solutions coming to market across all three of our business groups.

Financial Review

Overview

The Company has generated growth of 23.2% in revenue, 46.1% in adjusted EBITDA. The Company has regularly reported longer-term growth. Since FY09, the overall revenue growth is 1027%, or if you prefer, 24.6% compound; all of which has been organic.

Income statement

Revenue

Revenue grew 23.2% (25% at constant exchange rates) from £82.9 million to £102.1 million.

An additional factor in the revenue changes was the effect of the COVID-19 pandemic and the measures to manage this that were adopted by different countries. Lockdowns prevailed, thereby requiring people to remain at home, in some degree of isolation. The consequence was that people's creation of music increased substantially, leading to much higher demand for the products made by Focusrite.

The Focusrite segment comprises the products used in the recording and broadcasting of music or voice. The primary ranges are Scarlett and Clarett. In this segment, revenue increased by 33.7% to £77.2 million, driven primarily by demand for the new, third generation of the Scarlett range.

Focusrite Pro supports 'master music makers' who produce music for a living and commercial operations such as post-production houses, live and broadcast stages and education establishments. These were also adversely affected by the COVID-19 problems and revenue decreased by 24.0% to £3.6 million.

Novation products, including Ampify, support all musicians wishing to create music with technology. The primary ranges are Launchpad, Launchkey, Circuit and the Peak and Summit synthesisers. Overall, revenue increased by 11.6% helped by the new generations of Launchpad grid controllers and Launchkey keyboard controllers.

All the major geographic regions grew for each of the major product categories. North America represents 41% of the Company's revenue and grew at 16.4% (constant currency: 17.7%) to £41.4 million.

EMEA represents 44% of Company revenue. EMEA grew by 33.7% (constant currency: 35.8%) to £44.6 million. This growth was despite the decline in the distribution revenue. Again, Scarlett was important.

The ROW comprises mainly Asia and South America and represents the remaining 16% of Group revenue. Revenue in ROW grew by 15.2% (constant currency: 18.3%).

Exchange rates have been largely stable this year. The Euro average exchange rate was €1.14 (FY19: €1.13). The USD has strengthened slightly from $1.29 in FY19 to $1.27 in FY20. This improves revenue but has little effect on gross profit because the majority of the cost of sales are also charged in USD.

Segment profit

Segment profit is disclosed in more detail in the note to the accounts named, 'Business Segments'.

The segment profit for Focusrite was £33.0 million (2019: £28.8 million). This increased by 14.6% over the prior year as the latest generation of the Scarlett product range was welcomed by consumers. Focusrite Pro decreased to £1.7 million in FY20 due to the impact of COVID-19. Similarly, Novation weakened from £8.7 million to £7.2 million and distribution segment broke even as distribution was phased out.

Gross profit

In FY20, the gross margin was 41.0%, down from 42.0% in FY19. There are several reasons for this: sellout of the declining Distribution segment; a large duty provision (more detail provided in Note 23) and the sale of Focusrite products to ADAM Audio at a lower margin to aid distribution in Europe post-Brexit. The management of margin to get the best value out of discounts to the reseller channel remains a consistent priority.

Administrative expenses

Administrative expenses consist of sales, marketing, operations, the uncapitalised element of research and development and central functions such as legal, finance and the recharge of Focusrite plc management costs. These expenses were £21.7 million, up from £21.2 million last year. This included costs non-underlying items totalling £0.2 million (FY19: nil) relating to restructuring costs.

The Company's first application of IFRS 16 had an impact on administrative expenses and a marginal impact on profit before tax. Rent within administrative expenses reduced and the depreciation on right-of-use assets made up for this reduction. This resulted in a £0.2m increase to EBITDA.

Non-underlying item
There were no non-underlying items in FY19. In FY20, non-underlying items include the cost of restructuring following the acquisition of ADAM Audio by Focusrite's parent entity. This restructuring related to duplicate roles that existed within the two operating companies.

Foreign exchange and hedging
The average USD rate has strengthened slightly from $1.29 to $1.27. The USD accounts for over 50% of Company revenue but over 80% of cost of sales so this increases the revenue but makes little difference to the absolute gross profit.

The Euro comprises approximately a quarter of revenue but little cost. The Company enters into forward contracts to convert Euro to GBP. The policy adopted by the Company is to hedge approximately 75% of the Euro flows for the current financial year (year ending August 2021) and approximately 50% of the Euro flows for the following financial year (FY22). In FY19, approximately three-quarters of Euro flows were hedged at €1.10, and the average transaction rate was €1.13, thereby creating a blended exchange rate of approximately €1.11. In FY20, the equivalent hedging contracts were at €1.11, again close to the transactional rate of €1.14 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 15.6% (FY19: 10.0%). The Company'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.

Focusrite has long been considered a small or medium-sized enterprise ('SME') for the purposes of research and development relief in UK. From FY21, this is expected to change to the Research and Development Expenditure Credit ('RDEC') basis of relief in which the entity receives smaller credit to operating costs and the profit is then taxed at the headline rate (19% in UK). Therefore, the effective tax rate is expected to rise to approximately 19% in the next financial year.

Balance sheet

Non-current assets
The non-current assets comprise mainly capitalised development costs; property, plant and equipment; and software.

Working capital
Working capital was improved at 24.2% of revenue (FY19: 18.7%). Debtors were greater at the year-end as there as there were increased amounts due from the Parent company to support their loan repayments. That said, there was a reduction in stock as demand for product was high and creditors and accruals have reduced.

Stock continues to be managed carefully despite the hindrances of a lead time that is longer than the 'order book' and individual product demand that differs between months. Overall, stock decreased from £12.1 million to £9.0 million

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

Cash flow
The total cash balance at the year-end was £6.5 million, down from £12.5 million at 31 August 2019, as cash loans have been made to Focusrite plc in year to enable them to repay their revolving credit facility.

Summary
In my final Annual Report, I wish to thank the Board, advisers, shareholders and, above all, colleagues for a thrilling and rewarding six years at Focusrite. The Company has had another strong year with growth across revenue and profits. Revenue has grown by 23.2%, operating profit by 47.5% and profit after tax by 34.7%. The Company has had a year with several significant achievements in a uniquely challenging environment and yet achieved substantial growth as lockdowns increased the audience for Focusrite and Novation products. I am confident that the Company

will continue to grow from strength to strength in FY21 and beyond under the continued leadership of Tim Carroll and chairmanship of Phil Dudderidge. I wish them and my successor, Sally McKone, continued success in the future.

Key performance indicators

In addition to reviewing individual Company business performance against annual budgets and quarterly reforecasts and monitoring cash flow management, the Board pays particular attention to identifying and monitoring Key Performance Indicators (KPIs). The principal KPIs monitored by the Board include:

- Revenue; Up 23.2% from £82.9m to £102.1m in 2020
- EBITDA[1]; £24.9m in 2020 compared to £17.0m in 2019, an increase of 46.1%
- Underlying free cash flow; £2.2m which is 2% of revenue
- Net promotor score; Achieved a score of 74 compared to 69 the previous year, continuing a trend of year on year increase
- Number of Registered Core Users; 3.3million compared to 2.4million in 2019, an increase of 38%

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

Principal Risks and Uncertainties

In common with all businesses, the Company 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 Company's decision-making processes

During this financial year there have been two major challenges that have dominated the Company's consideration of risk: Brexit and COVID-19.

Brexit

Following the UK's departure from the EU on 31 January 2020, the UK entered a transition period which is scheduled to end on 31 December 2020. Until that date, the UK will effectively remained in the EU's customs union and single market, and so there was no impact on the Company during this period.

The Company established a Brexit working group in 2019 to analyse Brexit-related risks and operational challenges to our business and their potential impact. A large proportion of product is shipped directly from the manufacturer to the distributors, particularly in the USA and Asia. Product destined for continental Europe travels via the UK. The Company has positioned itself to be able to continue to supply products from the UK to continental Europe in the period following the exit. Post 31 December 2020, the Company continues to trade well with its customers in Europe. Some shipment delays have been experienced like many companies trading in Europe, however no impact to revenue has been experienced as a result.

COVID-19

Unsurprisingly, a summary of the risks that COVID-19 poses to the business and the actions being taken feature highly in this risk report. When the pandemic first occurred in China, the initial threat was to the Company's manufacturing operations and Asian supply chain. Whilst this remains a key risk, it is now clear that currently by far the greatest challenge the Company faces is the risk to demand. As the pandemic is unprecedented there is no way of predicting the extent of the effect COVID-19 will have on our customers' retail and online sales, and what the short, medium and long-term effect of the pandemic will be on consumer behaviour.

The evidence we have seen from sales through the pandemic to date is that:

- Demand will be the biggest issue. The Focusrite business is enjoying record demand and therefore the availability of components is key to those groups' ability to satisfy demand.

- Some products are likely to fare better than others: to date, home audio equipment has grown substantially while the pro audio equipment ranges have declined.

The Company's working practices have been challenged as the pandemic has developed. Measures to protect our employees, comply with differing levels of governmental restrictions and cope with illness throughout the business have been designed to ensure vital operations and projects remained on track. Trade shows where Focusrite would previously have exhibited its new products have been cancelled and so Focusrite has had to increase its marketing activities, use of video conferencing and online inspiration in order to reach its audiences.

As in all sectors, the music industry continues to experience profound and lasting structural changes. The Company expects the pandemic to accelerate the transition away from brick and mortar retail to online shopping therefore our efforts to learn new ways to serve customers, collaborate with partners and create value for our shareholders continue.

Assessment of principal risks and uncertainties

In addition to the more detailed consideration of Brexit and COVID-19, the business leaders have carried out a robust assessment of the principal risks and uncertainties facing the Group, including any emerging risks, and those that would threaten its business model, future performance, solvency or liquidity. Certain changes have been made to the principal risks and uncertainties reported in the previous year as a result of this assessment.

- 'Economic environment' has been augmented to 'business strategy development and implementation' to reflect the Company's continued growth in an uncertain world.
- 'Customer concentration' and 'channels to market' have been merged into 'Customer facing systems' so as to cover the risk that the Company fails to adopt and make effective use of new technologies which will enable the Company to reach and serve its customers well.
- Following the Company's statement that it has taken steps to mitigate the risk of a no-deal exit from the EU and its subsequent assessment that the risk is not significant in last year's Annual Report, 'Brexit' has been removed from the principal risks.
- 'US import tariffs' have been removed from the principal risks as the Company has established an alternative manufacturing plant from which products manufactured do not attract import tariffs.
- Within the risks associated with product supply, there remains a risk of component shortages which could disrupt, or increase the cost of, the manufacture of the Company's products.
- The principal risk of 'Information security' has been expanded to incorporate data privacy, business continuity and cyber risk.
- The Company has made considerable progress in strengthening its talent pipeline and succession plans so the 'People' risk relating to the dependency on attracting, retaining and motivating highly skilled and experienced personnel is a decreasing risk in the list of principal risks.
- Whilst the Company remains exposed to currency and exchange rate fluctuations which may affect revenue and costs when reported in GBP, it has taken steps to mitigate this as a risk, as reported in the previous year's Annual Report, therefore currency fluctuations has been removed as a principal risk.
- Climate change has not been assessed as a principal risk as business interruption insurance is in place, and our suppliers are deemed to have adequate experience in dealing with typhoons and other natural disasters.
- Reputational risk is not in itself a principal risk but is a key factor in evaluating all principal risks.

Principal risk/uncertainty	**Mitigation**
Business strategy development and implementation In these uncertain times, adopting the wrong business strategy or ineffectively implementing a strategy may result in the business suffering. Therefore the Company needs to understand and properly manage strategic risk, taking into account sector specific risk factors (which differ between the different brands in the business), in order to deliver long-term growth for the benefit of the Company's stakeholders.	• The Company reviews its business strategy on a regular basis (through virtual off-site meetings) to determine how sales and profit can be maximised, and business operations made more efficient. • The Executive Directors provide regular updates at Board meetings, which are challenged by the Non-executive directors, relating to initiatives and their progress. • The varying brands within the business provide geographic and product diversity • A disciplined approach to sales, budgeting and cost control is taken in order to ensure the Company can generate strong profits and cash flow • Business leaders consider strategic risk factors, wider economic and industry specific trends that affect the competitive position of its products • The Company has a detailed plan for the business going forward
Product innovation The market for the Company's products remains characterised by continued evolution in technology, evolving industry standards, changes in customer	• Research and development continues to be one of the Company's largest investments • The Company continually reviews: (i) the design and performance of its product ranges; and

needs and frequent new competitive product introduction therefore the Company's success depends on designing and selecting products that customers want to buy, at appropriate price points and stocked in the right quantities. Failure to meet the design, quality and value expectations of customers, in the short term, will result in surplus stocks that cannot be sold/sell slowly/are sold for less profit and in the longer term will adversely affect the Company's brand reputation.	(ii) trends within the industry and from influencers • Innovation has been bolstered by the appointment of a Head of Product and teams dedicated to product refreshes • Product owners approve quality standards, with in-house quality control and testing teams in place across all brands
Product supply The Company relies on a small supplier base, concentrated in China and Malaysia, to deliver products on time and to the Company's required quality and ethical standards. Failure to supply could result in an inability to service customer demand or adversely affect the Company's reputation. These suppliers depend on a reliable supply of components and there remains a risk of component shortages which could disrupt, or increase the cost of, the manufacture of the Company's products.	• Stock availability is reviewed on an ongoing basis and appropriate action taken where service or delivery to customers may be negatively impacted • Management continually seeks ways to solidify the relationships with our suppliers to ensure their focused attention and maintain the quality of products • Management review component supply and maintain close relationships with the component manufacturers. The Company also reviews single source components and, where possible, designs in multiple compatibility • Employees are trained and communications sent to suppliers regarding our expectations in relation to anti-bribery and modern slavery • The Audit Committee receives an annual report into modern slavery and anti-bribery training and a whistleblowing report at each meeting. Significant matters are reported to the Board
Customer facing systems By customers, the Company refers to the resellers and distributors with whom it works to take our products to the markets. The Company's performance depends on the engagement, recruitment and retention of those customers, and on their ability to drive and service customer demand, particularly in markets where the Company operates via a single distributor or has large individual reseller customers. There is a risk that the business fails to adopt and/or make effective and efficient use of new software, hardware and mechanisation to provide its customers with service levels that allow them to meet or exceed end users' expectations. These systems, software and platforms are ever changing, as technology evolves. A failure of or breakdown in the relationship with a key reseller or distributor, or even the failure of a major customer of a distributor, could significantly and adversely affect the Company's business.	• The Company has documented arrangements with its resellers and distributors to ensure they are holding sufficient stock levels and are motivated to promote the brands. Relationships are long-lasting and strong • Resellers are expected to be able to offer in-store as well as online experiences for users • The Company has increased its direct to market offering and plans for further expansion in the coming year • Continued investment in technology which supports the Company's e-commerce store has led to growth in the Company's direct to consumer offering • There is also continual development and monitoring of performance of the Company's NPS, with a particular focus by the customer support team on improving the user experience • The Company also works with influencers to promote its brands throughout the industry
Information security, data privacy, business continuity and cyber risk The unencumbered availability and integrity of the Company's IT systems is ever critical to successful trading. The Company continues to invest heavily in order to ensure a system that can record and process substantial volumes of data, prevent obsolescence and maintain responsiveness. The threat of a cyber security breach, or an unauthorised or malicious attack is an ongoing and increasingly sophisticated risk that the Company believes would negatively impact its reputation. Similarly, the inadvertent processing of customer or employee data in a manner deemed unethical or unlawful could result in significant financial penalties,	• The Company has a Privacy Council to operationalise privacy protection in key risk areas. Its main activities include raising awareness of data protection as well as monitoring key risks, activities and incidents • The Company has made significant investment into its systems' development and security programmes throughout the year and strengthened its in-house information and security resources • Systems vulnerability and penetration testing is carried out regularly by both internal and external resources to ensure that data is protected from corruption or unauthorised access or use • Critical systems backup facilities and business continuity plans are reviewed and updated regularly

remediation costs, reputational damage and/or restrictions on our ability to operate. The Company is noticing: • a changing attitude by global users towards their data and how it is used • increasingly complex and fast-evolving data protection laws and regulation • rapid technological advances delivering an enhanced ability to gather, draw insight from and monetise personal data	• Major incident simulations and business continuity tests are carried out periodically • IT risks are managed through the application of internal policies and change management procedures as well as enshrining security requirements and service level agreements on third-party suppliers in contractual documentation • The Company's data protection and information security policies are mandatory reading and are kept under regular review • The Company has prepared a roadmap to address gaps between current and target risk exposures
Intellectual property The Company relies on intellectual property and other proprietary rights which may not be always be adequately protected under current laws or which may be subject to unauthorised use.	• The Company has an ongoing programme to support appropriate protections of all intellectual property and other proprietary rights • The Company takes action against all known infringements and documents the terms on which it will allow the use of its registered rights • The Company has also hired an experienced intellectual property lawyer who is designing an active programme to protect our intellectual property rights
People People are critical to the Company's ability to meet the needs of its customers and end users and achieve its goals as a business. This requires the continued service of senior managers and technical personnel as well as our ability to attract, motivate and retain highly qualified people. There is an increased risk of short and long-term staff absence due to illness during the COVID-19 pandemic.	• Making Focusrite a great place to work is central to the Company's strategy • The Company champions diversity and inclusion and is building ways in which to develop talent through a number of activities, including apprenticeships and a leadership programme • The Company has well established recruitment channels and procedures to recruit and retain people • The Board considers the development of senior management to ensure there are opportunities for career development and promotion • The Remuneration Committee reviews Executive Director and senior management remuneration at least annually and formulates packages to retain and motivate these employees, including long-term incentive schemes • The Nomination Committee considers and reviews the skills, diversity, experience and succession planning of the Board. There is also detailed work on broader succession planning which includes wherever possible named short-term cover for key roles • Extensive efforts have been made to cater for individual staff needs during the pandemic, including enabling people to work from home, and to work safely on Company premises if they need to

By order of the Board

Jeremy Wilson

Chief Financial Officer

17 February 2021

Directors' report

The Directors present their report together with the audited financial statements for the year ended 31 August 2020.

Financial results and dividends

The audited accounts for the Company for the year ended 31 August 2020 are set out on pages 18 to 40. The Company profit for the year after taxation from continuing operations was £16.7 million (FY19: £12.4 million).

Directors and directors' interests

The directors who held office during the year and to the date of this report were as follows:

T Carroll
T J Dingley
P S Dudderidge
D R Hawley
S Holt
G R Orford (Resigned 31 May 2020)
J M C Wilson

Dividends

During the year the directors assessed the appropriateness of the company declaring a dividend and recommended that a dividend of £8,130,500 should be paid. Consequently, dividends of £8,130,500 (FY19: £9,292,000) were paid in respect of Ordinary Shares during the financial year to which this report relates.

Directors' and officers' liability insurance

At no time during the year did any Director hold a material interest in any contract of significance with the Company or any of its subsidiary undertakings other than an indemnity provision between each Director and the Company and employment contracts between each Director and the Company. The Company has purchased and maintained throughout the year Directors' and Officers' liability insurance.

Future business developments

The strategy of the Company is explained in the Strategic Report section of this Annual Report and Accounts which, as noted in the preamble to the Directors' Report, is incorporated into this Report by reference.

R&D

The Company continues to invest in its research and development activities, as explained in the Strategic Report. The R&D costs expensed in the period were £1,931,000 (2019: £2,130,000).

Health and safety

The Company is committed to providing a safe and healthy working environment for all staff and contractors. The Company's health and safety standard sets out the range of policies, procedures and systems required to manage risks and promote wellbeing. The General Counsel has overall accountability for health and safety across the organisation.

Going concern

The Company's business activities, together with risk factors which potentially affect its future development, performance or position can be found in the Strategic Report on pages 2 to 11.

The Company is profitable and expects to continue to be so, with significant cash resources, a high and continuing level of revenue and also high levels of cash conversion expected for the foreseeable future. The Company has access to, via Focusrite plc, a £40 million revolving credit facility with HSBC and NatWest expiring 18 December 2024. The Directors considered the going concern assumption and after careful enquiry and review of available financial information, including detailed projections of profitability and cash flows for the next three years.

The Company is a wholly owned subsidiary of Focusrite plc which has also been assessed for going concern; and it has been concluded that the Company has sufficient working capital and available banking facilities to satisfy the Company's requirements for at least 12 months from the date of signing of their annual report (17 November 2020). The Group accounts were signed off with no material uncertainties over going concern and the directors of FAEL have challenged the directors of plc and are satisfied that Group's performance continues in line with expectations at that time. As such the Company is satisfied that it remains a going concern

The Company and its immediate parent have considerable financial resources, recurring 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 are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis. Further details can be seen in the Going Concern section in note 2 to the financial statements.

Audit information

Each of the Directors at the date of the Directors' Report confirms that so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware and they have taken all the reasonable steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of the information.

The confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Auditor

Pursuant to section 487 of the Companies Act 2006 and having indicated its willingness to act, the Company will propose a resolution at the AGM that KPMG LLP be reappointed as auditor of the Company.

By order of the Board

Jeremy Wilson

Director

Windsor house
Turnpike Road,
High Wycombe
Buckinghamshire
HP12 3FX

17 February 2021

Statement of Directors' Responsibilities in respect of the Strategic report, the Directors' report and the Financial Statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Members of Focusrite Audio Engineering Limited

Opinion

We have audited the financial statements of Focusrite Audio Engineering Limited ("the company") for the year ended 31 August 2020, *which comprise the Statement of Comprehensive Income, Statement of Financial Position,* Statement of Changes in Equity and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 August 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a *material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.*

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 15, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

M. Froom

Michael Froom (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

One Snowhill

Snow Hill Queensway

Birmingham B4 6GH

United Kingdom

17 February 2021

Statement of comprehensive income

For the year ended 31 August 2020

	Note	2020 £'000	2019 £'000
Revenue	4	**102,119**	82,915
Cost of sales		**(60,234)**	(48,097)
Gross profit		**41,885**	34,818
Administrative expenses	8	**(21,735)**	(21,156)
Operating profit		**20,150**	13,662
Finance income	9	**31**	172
Finance costs	10	**(349)**	(40)
Profit before tax		**19,832**	13,794
Income tax expense	12	**(3,096)**	(1,373)
Profit for the year	6	**16,736**	12,421
Other comprehensive (loss)/income, net of income tax			
Items that may be reclassified subsequently to the income statement			
(Loss)/gain on forward foreign exchange contracts designated and effective as a hedging instrument		**371**	(198)
Total comprehensive income for the period		**17,107**	12,223
Profit attributable to:			
Owners of the Company		**17,107**	12,223
		17,107	12,223

The result has been derived from continuing operations.

Notes 1 to 29 form part of the financial statements.

Statement of financial position

As at 31 August 2020

	Note	2020 £'000	2019 £'000
Non-current assets			
Goodwill	14	**419**	419
Other intangible assets	15	**8,169**	7,004
Property, plant and equipment	16	**1,501**	1,272
Right of use asset		**425**	-
Investments	17	**13**	13
Total non-current assets		**10,527**	8,708
Current assets			
Inventories	18	**9,036**	12,058
Trade and other receivables	19	**37,010**	16,864
Cash and cash equivalents		**6,542**	12,457
Derivative financial instruments		**271**	-
Total current assets		**52,859**	41,379
Total assets		**63,386**	50,087
Current liabilities			
Trade and other payables	22	**21,197**	18,734
Right of use lease liabilities	21	**212**	-
Provisions	23	**747**	-
Current tax liabilities		**160**	283
Derivative financial instruments		**-**	188
Total current liabilities		**22,316**	19,205
Net current assets		**30,543**	22,174
Total assets less current liabilities		**41,070**	30,882
Non-current liabilities			
Right of use lease liabilities	21	**219**	-
Provisions	23	**500**	-
Deferred tax	20	**875**	780
Total liabilities		**23,910**	19,985
Net assets		**39,476**	30,102
Capital and reserves			
Share capital	24	**58**	58
Share premium		**332**	332
Deferred tax reserve		**465**	303
Hedging reserve		**219**	(152)
Capital redemption reserve		**1,116**	1,116
Retained earnings		**37,286**	28,445
Total shareholder's funds		**39,476**	30,102

The financial statements were approved by the Board of Directors and authorised for issue on 17 February 2021. They were signed on its behalf by:

Jeremy Wilson
Director

Company registered number: 02357989

Notes 1 to 29 form part of the financial statements.

Statement of changes in equity

For the year ended 31 August 2020

	Share capital	Share premium	Deferred tax reserve	Hedging reserve	Capital redemption reserve	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 September 2018	58	332	541	46	1,116	25,234	27,327
Profit for the period	-	-	-	-	-	12,421	12,421
Other comprehensive income for the period	-	-	-	(198)	-	-	(198)
Total comprehensive income for the period	-	-	-	(198)	-	12,421	12,223
Transactions with owners of the Company:							
Share-based payment deferred tax deduction in excess of remuneration expense	-	-	(238)	-	-	-	(238)
Share-based payment current tax deduction in excess of remuneration expense	-	-	-	-	-	82	82
Dividends	-	-	-	-	-	(9,292)	(9,292)
Balance at 31 August 2019	58	332	303	(152)	1,116	28,445	30,102
Profit for the period	**-**	**-**	**-**	**-**	**-**	**16,736**	**16,736**
Other comprehensive loss for the period	**-**	**-**	**-**	**371**	**-**	**-**	**371**
Total comprehensive income for the period	**-**	**-**	**-**	**371**	**-**	**16,736**	**17,107**
Transactions with owners of the Company:							
Share-based payment deferred tax deduction in excess of remuneration expense	**-**	**-**	**162**	**-**	**-**	**-**	**162**
Share-based payment current tax deduction in excess of remuneration expense	**-**	**-**	**-**	**-**	**-**	**236**	**236**
Dividends	**-**	**-**	**-**	**-**	**-**	**(8,131)**	**(8,131)**
Balance at 31 August 2020	**58**	**332**	**465**	**219**	**1,116**	**37,286**	**39,476**

Notes 1 to 29 form part of the financial statements.

Notes to the financial statements

For the year ended 31 August 2020

1 General information

Focusrite Audio Engineering Limited (the "Company"), is a company incorporated and domiciled in the United Kingdom. The address of its registered office is Windsor House, Turnpike Road, High Wycombe, Bucks, HP12 3FX.

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

Basis of preparation

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare Company financial statements. Accordingly, these financial statements present information about the Company as an individual undertaking and not about its Company. The financial statements for the year ended 31 August 2020 are presented in Pounds ('GBP' thousands; £'000). This is the functional currency of the Company.

The Company has measured its assets and liabilities in accordance with FRS 101.

The Company's parent undertaking, Focusrite Plc, includes the Company in its consolidated financial statements. The consolidated financial statements of Focusrite Plc are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from the Company's registered office.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash Flow Statement and related notes;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;

As the consolidated financial statements of Focusrite Plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of Company settled share based payments;
- Certain disclosures required by IAS 36 Impairment of assets in respect of the impairment of goodwill and indefinite life intangible assets;
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures; and
- The disclosures required by IFRS 7 and IFRS 13 regarding financial instrument disclosures have not been provided apart from those which are relevant for the financial instruments which are held at fair value and are not either held as part of trading portfolio or derivatives.

2 Accounting policies

The accounting policies set out below have been applied consistently for all periods presented in the financial statements.

Any standards and interpretations that have been issued but are not yet effective, and that are available for early application, have not been applied by the Company in these financial statements.

Adoption of IFRS 16 'Leases'

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The new standard replaces existing leases guidance, principally IAS 17 Leases.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases of 12 months or less and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Company applied IFRS 16 initially on 1 September 2019, using the modified retrospective approach. IFRS 16 has a number of practical expedients for first time adoption. The Company has utilised the following practical expedients at the transition date:

• apply a single discount rate to a portfolio of leases with reasonably similar characteristics;

• exclude initial direct costs from the measurement of the right-of-use asset on transition;

• use hindsight to determine the term;

• use onerous contract assessment under IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before transition instead of performing an impairment review under IAS 36 Impairment; and

• for leases with a remaining term of less than 12 months at 1 September 2019, the short-term lease exemption in IFRS 16 has been taken.

Right-of-use assets and lease liabilities of £0.6 million have been recognised by the Company at 1 September 2019. The impact on net profit after tax is not material. However, EBITDA has increased by £0.2 million in FY20 as the operating lease payments were previously included in FY19 in EBITDA as an administrative expense, but the amortisation of the right-of-use assets and interest on the lease liability will be excluded from this measure. The impact on operating profit is not material.

Repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities, while previously rental payments were classified as operating cash flows. In FY20, the value of these payments was approximately £0.2 million.

The following table summarises the difference between the operating lease commitments disclosed under IAS 17 at 31 August 2019 in the Company's financial statements and the lease liabilities recognised at 1 September 2019:

	1 September 2020 £'000
Operating lease commitments at 31 August 2019 as disclosed under IAS 17	**808**
Application exemption for short-term leases	**(19)**
Application exemption for leases of low value	**(5)**
Monthly payments that do not give rise to a right-of-use asset under IFRS 16	**-**
Future lease commitments - leases or amended on or before 31 August 2019	**(122)**
Gross lease liabilities for former operating leases	**662**
Discounting impact	**(13)**
Total	**649**

Going concern

The Company's business activities and position in the market are described in the Strategic Report.

The COVID-19 virus has caused upheaval worldwide with many businesses experiencing a significant decline in revenue. The Directors have prepared projected cash flow forecasts for the period ending 12 months from the date of their approval of this financial statement. These forecasts include a severe but plausible downside scenario, which includes potential impacts from the continued uncertainty of COVID-19 (see below).

The base case covers the period to March 2022 and includes demanding but achievable forecast growth. The forecast has been extracted from the Group's three-year plan. Key assumptions include:

- Future growth assumptions consistent with those recently achieved by the business excluding an estimate of the impact of COVID-19.
- Free cash flow as a percentage of revenue held steady compared to previous years.
- Continued investment in research and development.
- Dividends consistent with the Company's dividend policy.

Throughout the period the forecast cash flow information indicates that the Company will continue to be have sufficient funds to continue to meet their liabilities as they fall due.

The Directors' view is that a severe yet plausible downside assumption against their base case forecasts is estimated to be a revenue shortfall of 30% for a six-month period commencing December 2020. This model assumes that purchases of stock will, in time, reduce to reflect reduced sales and the Group will respond to the shortfall by taking reasonable steps to reduce overheads within its control. Even at that level, the Company still expects to have increased its cash position over the 12 month period and at no point will have current liabilities that exceed the cash balances available to it.

Separately, the Directors estimate that if the Company were to experience a shortfall in revenue of greater than 90% for six months with consequential reductions in the purchases of stock, overheads and potentially dividends, liquidity would fall beyond the ability to immediately pay creditors if they demanded payment. However, the Company would still have positive cash balances under this scenario. However, the Directors view is that any scenario of a revenue shortfall of greater than 30% is not plausible.

In reality, the Company is currently experiencing high levels of consumer registrations and customer demand, partially as a result of additional COVID-19 lockdowns across the globe, and therefore revenue has continued to be strong in the months prior to date of their approval of these financial statements. Year to date revenue for the Company is three times that of the same period last year, and gross profit is up 190%. Net cash has increased from £6.5m as at 31 August 2020 to £14.6m as at 31 October 2020, an increase of £8.1m.

The Company is a wholly owned subsidiary of Focusrite plc which has also been assessed for going concern; and it has been concluded that the Company has sufficient working capital and available banking facilities to satisfy the Company's requirements for at least 12 months from the date of signing of their annual report (17 November 2020)

The Company and its immediate parent have considerable financial resources, recurring 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 are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Further detail is contained in the Strategic Report on pages 2 to 6.

Investments

Investments in subsidiaries are stated at cost less any provision for impairment.

Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Company's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Company's cash-generating units expected to benefit from synergies arising from the combination. Cash-generating units to which goodwill has been attributed under IFRS 3 Business Combinations are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in determining profit or loss on disposal.

Revenue recognition

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Having identified the customer, the performance obligations and the transaction price, the revenue is recognised when the Company satisfies the performance obligations.

The value of revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of sales taxes and discounts.

Due to the fact that the vast majority of sales by Focusrite involve sale of goods, the timing of the revenue recognition is considered in relation to 'Performance obligations satisfied at a point in time' (IFRS 15; 38) when one of the following has occurred:

a) The entity has a present right to payment for the asset.
b) The customer has legal title to the asset.
c) The entity has transferred physical possession of the asset.
d) The customer has the significant risks and rewards of ownership of the asset.
e) The customer has accepted the asset.

Sales of goods

The Company has three routes to market for the sale of goods, covering all segments and geographical markets. Sales to distributors are made under contractual international commercial terms ("incoterms") which mean that control is transferred when goods are shipped. The incoterms used for sales to resellers and sales to end-users mean that control is transferred when goods are delivered.

Sale of apps

Revenue from the download of apps is recognised upon confirmation from the app store provider.

Customer rebates

Where the Company has rebate agreements with its customers, the value of customer rebates paid or payable, calculated in accordance with the agreements in place based on the most likely outcome, is deducted from turnover in the year in which the rebate is earned.

Interest income

Interest income is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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 within their relevant income statement category to enable a full understanding of the Company's result.

Leases

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The accounting policy under IAS 17 and IFRIC 4 was to treat all the Group's leases as operating leases (leases in which a significant portion of the risks and rewards of ownership are retained by the lessor). Rentals payable under operating leases were charged to the income statement on a straight-line basis over the term of the relevant lease (net of any incentive received from the lessor). The impact of the change is disclosed at the beginning of this note.

IFRS 16 was adopted on 1 September 2019.

The Company recognises a right-of-use asset and lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-to-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the basis as those of property and equipment. In addition, the right-of-use asset is periodically assessed for impairment and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, if available, otherwise the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise fixed payments and variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in index or rate, of if the Company changes its assessment of whether it will exercise an extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets in 'Property Plant and Equipment' and lease liabilities as 'Other Liabilities' in the statement of financial position.

Foreign currencies

Transactions in foreign currencies are translated to the Company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. 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 the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account. Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on transactions entered into to hedge certain foreign currency risks (see below under financial instruments / hedge accounting); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Company's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are only recognised for taxable temporary differences arising on investments in subsidiaries, where the Company is unable to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Tangible and intangible assets

Property, plant and equipment

The Company has held no land and buildings for the period covered by the financial statements.

Other items of property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is recognised so as to write off the cost or valuation of assets less residual value over their useful lives, using the straight-line method, on the following bases:

Plant, equipment and tooling	3 to 5 years
Computer equipment	2 years
Fixtures and fittings	5 years
Leasehold improvements	5 to 8 years
Customer demonstration units	2 years

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income on the transfer of the risks and rewards of ownership.

Intangible assets

Intangible assets are amortised over the following periods on a straight-line basis:

Development expenditure	2 to 3 years
Purchased intellectual property	2 years
Licences	2 to 5 years
Computer software	2 years

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Company's development of new and enhanced products is recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as a product design);
- the asset is technologically feasible;
- the Company intends to complete the asset and use or sell it;
- adequate technical, financial and other resources are available to complete the asset and use or sell it;
- it is probable and demonstrable that the asset created will generate future economic benefits; and
- the costs of developing this asset can be measured reliably. Costs include payroll costs plus project-specific subcontractor and materials costs.

Where no internally-generated intangible asset can be recognised, the expenditure is recognised as an expense in the period in which it is incurred.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired. Capitalised development costs are calculated by reference to the Company's product development department and will therefore be tested for impairment at cash generating unit level.

Recoverable amount is the higher of: (i) fair value less costs to sell and (ii) value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease to the extent that the revaluation balance is greater than the impairment loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years for the asset (or cash-generating unit). A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using either the First-In-First-Out method or, for fast moving items, the average cost method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Trade and other receivables

Trade debtors, which generally have 30 to 60-day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. The company measures loss allowances at an amount equal to lifetime expected credit loss ('ECL'). Balances are written off when the probability of recovery is assessed as being remote.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Financial Assets

All financial assets are normally recognised and derecognised on a trade date basis where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value. On derecognition however, where a specific transaction is entered into with a counterparty that is judged to carry a high credit or liquidity risk, then management may determine that derecognition of the financial asset shall be based on settlement date rather than trade date, with any realised gain or loss taken to profit and loss on date of settlement.

Financial assets are classified into the following specified categories: financial assets at 'fair value through profit or loss' ("FVTPL"), 'held-to-maturity' investments, 'held for sale' ("HFS") financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Classes of financial asset

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a Company of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the Companying is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the income statement.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as HFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the differences between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a Company of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the Companying is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the income statement.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

Derivative financial instruments

The Company is able to enter into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross currency swaps.

Hedge accounting

The Company has adopted hedge accounting for qualifying transactions. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Company designates certain derivatives as hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

For cash flow hedges, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

3 Critical judgements and estimations in applying the Company's accounting policies

The following are the important judgements and estimations that the Directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial information.

Judgements

Revenue recognition

Stock is sold and revenue recognised when we have satisfied our performance obligations to distributors and dealers. The key judgement required is in the US where the Company has a single distributor: American Music & Sound ('AMS').

The Company's subsidiary, Focusrite Novation Inc ('FNI') works closely with AMS to market the Company's products and maintain relationships with AMS' customers.

However, in the judgement of the Directors, the Company does not have continuing managerial involvement over the goods sold to the degree usually associated with ownership, thereby signalling that AMS is a principal, rather than an agent of the Company. The reasons for this view include the facts that AMS has responsibility for providing goods to the customer, responsibility for the collection of payments from their customers and has no right of return to the Company. This judgement is consistent with prior periods.

Estimates

The Directors believe that the following items are critical due to the degree of estimation required, and that they have the risk of material change which could impact upon the financial statements of future periods.

Revenue recognition

There are certain cases where the Company would issue a credit note after the year end in respect of goods sold prior to the year end. One example is a retrospective rebate issued to a reseller if the reseller buys more than a targeted value of stock from the Company. A second example is in respect of a warranty claim made by a consumer for a non-working product.

The Company estimates the post-year-end financial impact of all of these adjustments and ensures that a sufficient credit note reserve exists to be confident that revenue recognised in the reported financial year will not be reversed in the following financial year. As an indication of the range of estimation in this area, the credit note provision at year end is £601,000 (2019: £1,009,000).

Capitalisation and recoverability of internally-generated intangible asset

Management considered both the capitalisation and the recoverability of its internally-generated intangible assets for development costs which is included in the balance sheet at 31 August 2020 at £7,320,000 (2019: £6,276,000). The amount capitalised in the year was £4,132,000 (2019: £3,882,000). Management applied estimates in their assessment of amounts capitalised in accordance with IAS 38 *Intangible Assets*, in particular around measuring reliably the expenditure incurred on projects during their development. These projects continue to progress in a satisfactory manner, and customer reaction has reconfirmed management's previous estimates of anticipated revenues from the projects.

Management is confident that the carrying amount of the asset will be recovered in full. This situation will be closely monitored, and adjustments made in future periods if future market activity indicates that such adjustments are appropriate.

4 Revenue

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

	Year ended 31 August	
	2020	2019
	£'000	£'000
Continuing operations		
North America	**41,421**	35,586
Europe, Middle East and Africa	**44,554**	33,320
Rest of World	**16,144**	14,009
Revenue	**102,119**	82,915

5 Business Segments

Products and services from which reportable segments derive their revenues

Information reported to the Board of Directors for the purposes of resource allocation and assessment of segment performance is focused on the main products which Focusrite sells. While the results of Novation and Ampify are reported separately to the board, they are aggregated together for the purposes of segmental reporting. The Company's reportable segments under IFRS 8 are therefore as follows:

Focusrite	–	Sales of Focusrite branded products
Focusrite Pro	–	Sales of Focusrite Pro branded products
Novation	--	Sales of Novation or Ampify branded products
Distribution	–	Distribution of third-party brands including KRK, Stanton, Cerwin-Vega, and sE Electronics

Segment revenues and results
The following is an analysis of the Company's revenue and results by reportable segment:

	Year ended 31 August 2020 £'000	2019 £'000
Revenue from external customers		
Focusrite	**77,083**	57,646
Focusrite Pro	**3,577**	4,704
Novation	**19,766**	17,718
Distribution	**1,693**	2,847
Total	**102,119**	82,915
Segment profit		
Focusrite	**41,816**	28,787
Focusrite Pro	**2,159**	2,908
Novation	**10,136**	8,678
Distribution	**307**	807
	54,418	41,180
Central distribution costs and administrative expenses before non-underlying items	**(34,068)**	(27,518)
Non-underlying items	**(201)**	-
Operating profit	**20,149**	13,662
Finance income	**31**	172
Finance costs	**(349)**	(40)
Profit before tax	**19,832**	13,794
Tax	**(3,096)**	(1,373)
Profit after tax	**16,736**	12,421

The accounting policies of the reportable segments are the same as the Company's accounting policies described in note 2. Segment profit represents the profit earned by each segment without allocation of the share of central administration costs including Directors' salaries, investment revenue and finance costs, and income tax expense. This is the measure reported to the Board of Directors for the purpose of resource allocation and assessment of segment performance.

Central administration costs comprise principally the employment related costs and other overheads incurred by Focusrite and its US subsidiary, net of inter-company commission income. Also included within central administration costs is the charge relating to the share option scheme (note 26) of £537,000 for the year ended 31 August 2020 (2019: £348,000).

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

	2020 £'000	2019 £'000
Non-current assets		
North America	**13**	13
Europe, Middle East and Africa	**9,589**	8,022
Rest of World	**925**	673
Total non-current assets	**10,527**	8,708

Information about major customers

Included in revenues shown for 2020 is £35.4 million (2019 £33.4 million) attributed to the Company's largest customer. Amounts owed at end of year is £6.4 million (2019: £6.5 million).

6 Profit for the year

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

	Note	Year ended 31 August 2020 £000	2019 £000
Net foreign exchange (gains)/losses	9,10	**326**	(103)
Research and development costs		**1,931**	2,130
Depreciation and impairment of property, plant and equipment	16	**820**	628
Loss on disposal of property, plant and equipment		**2**	2
Amortisation of intangibles	15	**3,657**	2,733
Operating lease rental expense	21	**-**	214
Cost of inventories recognised as an expense		**48,747**	40,930
Staff costs (excluding share based payments)	11	**10,134**	8,167
Impairment loss recognised on trade receivables	19	**67**	22
Share based payments charge to profit and loss		**537**	348

Due to the adoption of IFRS 16 Leases, there is no longer a charge to profit for operating lease rental. Instead, a charge to profit is made for the depreciation of the right-of-use asset.

7 Auditors' remuneration

	Year ended 31 August 2020 £000	2019 £000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**85**	85
Fees payable to the company's auditors and its associates for other services:		
Audit-related assurance services	**-**	15
Tax compliance services	**-**	-
Other assurance services	**-**	-
	85	100

8 Non-underlying items

In FY20, £201,000 was spent on staff exit costs as a result of duplication of roles after the purchase of ADAM Audio by Focusrite plc. No non-underlying costs occurred in FY19.

9 Finance income

	Year ended 31 August 2020 £000	2019 £000
Bank deposit interest	**31**	69
Exchange gain	**-**	103
Finance income	**31**	172

10 Finance costs

	Year ended 31 August 2020 £000	2019 £000
Bank charges	**23**	40
Exchange loss	**326**	-
Finance costs	**349**	40

11 Staff costs and directors' remuneration

a) Staff costs

	Year ended 31 August 2020	2019

	£000	£000
Wages and salaries	**10,117**	9,443
Social security costs	**1,237**	968
Other pension costs	**813**	616
Share-based payments	**537**	348
	12,704	11,375
Less amounts capitalised within development costs	**(2,570)**	(2,860)
	10,134	8,515

The average number of persons, including executive directors, employed by the Company during the year was as follows:

	2020 Number	2019 Number
Research and development	**92**	82
Sales and marketing	**60**	44
Operations	**80**	44
Administration and central	**23**	18
	255	188

b) Directors' remuneration

	Year ended 31 August	
	2020	2019
	£000	£000
Management remuneration and fees	**1,339**	1,036
Pension contributions	**52**	42
Termination benefits	**-**	-
Other taxable benefits	**2**	4
	1,393	1,082
In respect of the highest paid director:		
Management remuneration and fees	**357**	286
Pension contributions	**-**	-
Benefits	**2**	4
	359	290

12 Tax

	Year ended 31 August	
	2020	2019
	£'000	£'000
Corporation tax charges:		
Under/(Over) provision in prior year	**75**	(150)
Current year	**2,851**	1,205
	2,926	1,055
Deferred taxation		
Current year	**170**	318
	3,096	1,373

Corporation tax is calculated at 19% (2019: 19%) of the estimated taxable profit for the year.

From FY21, the R&D enhanced expenditure relief is expected to change to the Research and Development Expenditure Credit ('RDEC') basis of relief in which the entity receives smaller credit to operating costs and the profit is then taxed at the headline rate (19% in UK). Therefore, the effective tax rate is expected to rise to approximately 19% in the next financial year.

The tax charge for each year can be reconciled to the profit per the income statement as follows:

	Year ended 31 August	
	2020	2019
	£'000	£'000
Current taxation		
Profit before tax on continuing operations	**19,832**	13,794

Tax at the UK corporation tax rate of 19% (2019: 19%)	**3,768**	2,621
Effects of:		
Expenses not deductible for tax purposes	**472**	12
R&D tax credit	**(1,219)**	(1,134)
Prior period adjustment - current tax	**75**	(126)
Prior period adjustment - deferred tax		
Effect of change in standard rate of deferred tax	**-**	-
Total tax charge for period	**3,096**	1,373

13 Dividends

The following equity dividends have been approved and paid:

	Year to 31 August 2020	Year to 31 August 2019
Dividend per qualifying ordinary share	**14.0p**	16.0p

During the year, the Company paid an interim dividend in respect of the year ended 31 August 2020 of 14.0 pence per share (2019: 16.0 pence per share).

The Directors recommended a final dividend of nil pence per share (2019: nil pence per share), making a total of 14 pence per share for the year (2019: 16 pence per share).

14 Goodwill

	£'000
Cost	
At 31 August 2018	419
At 31 August 2019	419
At 31 August 2020	**419**

No impairment losses have been required on goodwill amounts recognised in the Company to date.

Carrying amount	
At 31 August 2018	419
At 31 August 2019	419
At 31 August 2020	**419**

Goodwill arose as a result of a transfer on 31 August 2006 of the assets and liabilities of Novation Digital Music Systems Limited for a consideration of £711,000. Accordingly, the whole of the value of goodwill is attributable to the Novation cash generating unit ('CGU').

An impairment assessment in relation to the CGUs was performed by management. The recoverable amounts of this CGU have been determined based on the value in use method. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period, and a pre-tax discount rate of 13.1% (2019: 13.1%). Cash flows beyond that five-year period have been extrapolated using a perpetual 2% growth rate (FY19: 2%) based on IMF estimates of long-term inflation.

Management believes that any reasonably possible change in the key assumptions on which this CGU's recoverable amounts are based would not cause the carrying amount to exceed their respective recoverable amounts. Also, it is noted that there is sufficient headroom for the Novation CGU.

15 Other Intangible assets

	Intellectual property £'000	Development costs £'000	Licences £'000	Trademark £'000	Computer software £'000	Total £'000
Cost						
At 1 September 2018	495	18,336	89	286	853	20,059
Additions	-	3,822	14	136	148	4,120
Disposals	-	-	-	-	-	-
At 31 August 2019	495	22,158	103	422	1,001	24,179
Additions	-	4,132	64	404	232	4,832
Disposals	-	(3,401)	-	-	(10)	(3,411)
At 31 August 2020	**495**	**22,889**	**167**	**826**	**1,223**	**25,600**
Amortisation						
At 1 September 2018	207	13,695	88	114	338	14,442
Charge for the year	145	2,187	7	154	240	2,733
Disposals	-	-	-	-	-	-
At 31 August 2019	352	15,882	95	268	578	17,175
Charge for the year	143	3,088	27	196	203	3,657
Disposals	-	(3,401)	-	-	-	(3,401)
At 31 August 2020	495	**15,569**	**122**	**464**	**781**	**17,431**
Carrying amount						
At 31 August 2020	-	**7,320**	**45**	**362**	**442**	**8,169**
At 31 August 2019	143	6,276	8	154	423	7,004
At 31 August 2018	288	4,641	1	172	515	5,617

16 Property, plant and equipment

	Plant, tooling equipment and machinery £'000	Fixtures, fittings & leasehold improvements £'000	Computer equipment £'000	Customer demonstration units £'000	Right-of-use asset	Total £'000
Cost						
At 1 September 2018	2,877	940	660	93	-	4,570
Additions	511	21	182	-	-	714
Disposals	-	-	(2)	-	-	(2)
At 31 August 2019	3,388	961	840	93	-	5,282
Additions	561	22	242	-	649	1,474
Disposals	(1,405)	-	(2)	-	-	(1,407)
At 31 August 2020	**2,544**	**983**	**1,080**	**93**	**649**	**5,349**
Accumulated depreciation and impairment						
At 1 September 2018	2,277	593	444	70	-	3,384
Charge for the year	342	86	177	23	-	628
Eliminated on disposal	-	-	(2)	-	-	(2)
At 31 August 2019	2,619	679	619	93	-	4,010
Charge for the year	267	87	242	-	224	820
Eliminated on disposal	(1,405)	-	(2)	-	-	(1,407)
At 31 August 2020	**1,481**	**766**	**859**	**93**	**224**	**3,423**
Carrying amount						
At 31 August 2020	**1,063**	**217**	**221**	-	**425**	**1,926**
At 31 August 2019	769	282	221	-	-	1,272
At 31 August 2018	600	347	216	23	-	1,186

17 Investments

	Shares in Company undertakings

	£'000
Cost and net book value	
At 31 August 2020	**13**
At 31 August 2019	13
At 31 August 2018	13

The investment of £13,000 represents the entire issued share capital of Focusrite Novation Inc. The Company's principal subsidiary undertaking for the period is set out below, including the name, country of incorporation, and proportion of ownership, and controlling, interest.

Name	Country of registration or incorporation	Address	Principal activity	Class of shares	2020 %	2019 %
Focusrite Novation Inc	USA	840 Apollo St, El Segundo, CA, 90245, USA	Marketing services	Ordinary	**100**	100
Focusrite Novation Asia Limited	Hong Kong	2316, 23/F Hong Kong Plaza, 181-191 Connaught Road West, Shek Tong Tsui, Hong Kong	Marketing services	Ordinary	**100**	100
Focusrite Australia PTY Limited[1]	Australia	Suite 5, Level 1, 796 High Street, Kew East, Victoria 3102, Australia	Marketing services	Ordinary	**100**	0

[1] Incorporated on 4 August 2020. No transactions took place in FY20.

18 Inventories

	2020 £'000	2019 £'000
Raw materials	**126**	362
Finished goods	**8,910**	11,696
	9,036	12,058

The stock value includes a provision of £725,000 (2019: £650,000). No inventories have been pledged as security against borrowings (2019: £nil). Stock days recorded against cost of goods sold amounted to 75 days in 2020 (2019: 107 days). The write-down of inventories to net realisable value amounted to £356,000 (2019: £100,000). The reversal of write-downs amounted to £nil (2019: £nil). The write-down and reversal are included in cost of sales.

19 Trade and other receivables

	2020 £'000	2019 £'000
Amount receivable for the sale of goods	**13,176**	13,209
Expected credit loss	**(76)**	(9)
	13,100	13,200
Other debtors	**398**	3,074
Prepayments	**515**	517
Amounts owed by Company undertakings	**22,997**	73
	37,010	16,864

The amounts owed by Company undertakings are interest free and repayable on demand. It includes amounts owed by subsidiaries wholly owned by the Company's parent.

Trade receivables

Trade receivables disclosed above are classified as loans and receivables and are measured at amortised cost.

The average credit period offered on sales of goods during 2020 was 36 days (2019: 45 days). The average days sales outstanding ("DSO") in 2020 was 52 days (2019: 57 days).

The Company has not charged interest for late payment of invoices in 2020 or 2019.

Allowances against doubtful debts are recognised against overdue trade receivables based on estimated irrecoverable amounts determined by reference to past default experience. Specific counterparty risk is also considered where an analysis of the counterparty's current financial position indicates a change in credit risk.

Before accepting any significant new customer, the Company uses a variety of credit scoring systems to assess the potential customer's credit quality and to define credit limits for each customer. Limits and scoring attributed to customers are reviewed regularly. A single major distributor accounted for 40% of the total balance of trade receivables net of allowances for doubtful debts on 31 August 2020 (2019: 48%). No other single customer accounted for more than 10% of the total balance of trade receivables net of allowances for doubtful debts during the period under review.

Trade receivables disclosed above include amounts which are past due at the year-end but against which the Company has not recognised an allowance for doubtful receivables. There has not been a significant change in credit quality and the amounts are still considered recoverable.

20 Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Company:

	Accelerated tax depreciation £'000	Share based payments £'000	Hedging instrument £'000	**Total £'000**
Cost				
At 1 September 2018	888	(599)	11	300
Debit to profit or loss	342	(53)	-	289
Debit to other comprehensive income	-	-	(47)	(47)
(Credit) to equity	-	238	-	238
At 31 August 2019	1,230	(414)	(36)	780
(Credit)/debit to profit or loss	240	(70)	-	170
(Credit)/debit to other comprehensive income	-	-	87	87
(Credit)/debit to equity	-	(162)	-	(162)
At 31 August 2020	**1,470**	**(646)**	**51**	**875**

There is no net off of tax assets/liabilities included within the above categories. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2020 £000	2019 £000
Deferred tax liabilities	1,521	1,230
Deferred tax assets	(646)	(450)
	875	780

21 Leases

The Company has leases for its office and office related equipment. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet from 1 September 2019. The Company classifies its right-of-use assets within 'property, plant and equipment' (see note 16).

The leases for offices range from three to five years in term, with the last leases due to expire in 2023. Lease payments are generally fixed and there is no option to purchase the buildings at the end of the term. For leases over office buildings and warehouses the Company must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Rent reviews and break clauses apply to leased property agreements.

Right-of-use assets consist of the following leases:

	2020 £'000	2019 £'000
Offices and warehouses	**425**	649
	425	649

Lease liabilities related to leases are split between current and non-current:

	2020 £'000	2019 £'000

Current	**212**	219
Non-current	**219**	430
	431	649

When measuring the lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 1 September 2019. The weighted-average rate applied is 1.78%.

At the balance sheet date the Company had outstanding commitments for future minimum lease payments under non-cancellable leases, which fall due as follows:

	Minimum lease payments	
	2020	2019
	£'000	£'000
Within one year	**274**	291
In the second to fifth years inclusive	**213**	517
After five years	**-**	-
	487	808

22 Trade and other payables

	2020	2019
	£'000	£'000
Trade payables	**10,291**	7,917
Accrued expenses	**4,594**	4,450
Other payables	**672**	604
Amounts owed to Company undertakings	**5,640**	5,763
	21,197	18,734

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average creditor days for trade purchases was 62 days (2019: 60 days). No interest costs have been incurred in relation to trade payables. The Company policy is to ensure that payables are paid within the pre-agreed credit terms and to avoid incurring penalties and/or interest on late payments. Other creditors include sales taxes, property taxes, social security and employment taxes due to local tax authorities.

The directors consider that the carrying amount of trade payables approximates their fair value.

The amounts owed to Company undertakings are interest free and repayable on demand.

23 Provisions

	Duty	**Property**	**Total**
	£'000	**£'000**	**£'000**
At 1 September 2019	-	-	**-**
Provisions made during the year	747	500	**1,247**
Provisions used during the year	-	-	**-**
At 31 August 2020	747	500	**1,247**
Current	747	-	**747**
Non-current	-	500	**500**
	747	500	**1,247**

The duty provision was established in FY20 to cover the retrospective correction of the duty paid prior to March 2020. See Note 28 for more detail.

Property provisions relate to the maximum potential costs to reinstate the Company's leased buildings to their condition at lease commencement as well as associated advisor's fees. The leases expire in more than one year and the Company has no current plans to leave the relevant buildings. The Company had no property provision in FY19.

24 Share capital

The Company has one class of ordinary shares which carry no right to fixed income.

	2020 Number	2019 Number
Issued and fully paid:		
Ordinary shares of £0.001 each	**58,075,000**	58,075,000

	2020 £'000	2019 £'000
Issued and fully paid:		
Ordinary shares of £0.001 each	**58**	58
	58	58

25 Retirement benefit scheme

The Company operates a stakeholder retirement benefit scheme which is open to all employees.

Other than amounts that are deducted from employees' remuneration and accrued pending payment to the pension fund, no further obligations fall on the Company as the assets of these arrangements are held and managed by third parties entirely separate from the Company.

The pension charge for the period represents contributions payable to the fund and amounted to £813,000 for the year ended 31 August 2020 (2019: £616,000). Contributions totalling £55,000 (2019: £50,000) were payable to the fund at the balance sheet date and are included in trade and other payables.

26 Share option scheme

The Company operated three option schemes, the 2014 EMI Scheme, the 2018 Long Term Incentive Plan and an unapproved option scheme ("Share option Scheme").

Prior to Focusrite Plc's incorporation, the Company operated Share Option Schemes and granted options over its share capital ("Old Options"), under which 8,143 share options were outstanding at the beginning of the period. Following Admission, the Old Options had been rolled over into options over shares in Focusrite Plc and Focusrite Plc took over the operation of the Share Option Scheme. As a result, the number of options exercisable at the end of the reporting period is Nil (2019: Nil).

27 Contingent liabilities

In the opinion of the Directors, the Company is not involved currently in any legal proceedings which, at 31 August 2020 and for the period up to the date of approval of these financial statements, have had a significant effect on the financial position or profitability of the Company.

28 Contingent Assets

In early 2020, Focusrite became aware that the US import duty code on Scarlett interfaces was different from that used by its competitors for their interfaces. The effect was that the competitors were paying far less import duty than Focusrite. A legal opinion was obtained from a US lawyer that the code used by the competitors was valid. Therefore, the new code was used from that point on and this has been accepted by the US authorities.

The effect of using the new code is that there needs to be a retrospective correction for the duty paid prior to March 2020. The net effect of this retrospective correction is an expected rebate of c.a.$2.5 million. However, this is a net of a payment of $1.0 million and a rebate of $3.5 million. The payment of $1.0 million has been provided for in these financial statements on account of this payment being probable.

The rebate of $3.5 million will only be received when the US authorities have reviewed all of the retrospective paperwork submitted to confirm the change of code for that product for the last four years. Therefore, it will be treated as a contingent asset until confirmation has been received from the US authorities.

29 Related party transactions

Transactions between the Company and related parties, which are not wholly owned subsidiaries, are disclosed below.

During the year, the Company continued a commercial lease agreement in Lincoln Road, High Wycombe. Mr P Dudderidge, a Director of Focusrite Audio Engineering Limited and shareholder of Focusrite Plc, is the landlord of the property in Lincoln Road, High Wycombe. The annual rental is £19,750 (2019: £19,750), and is charged on an arm's length basis.

30. Controlling party

Focusrite Plc is the ultimate and immediate parent company as at 31 August 2020. Focusrite Plc is a publicly traded company on AIM stock exchange, with no individual share holder having a controlling share.