Fender Musical Instruments Europe Limited

Annual report and financial statements

Registered number 3127180

29 December 2019

Contents

Strategic Report

The directors present their annual report and audited financial statements for the 52-week period ended 29 December 2019. The comparative period was the 52-week period ended 30 December 2018.

Principal activities

The principal activity of the company throughout the period was the provision of sales and marketing support services to Fender International Corporation for the sale of musical instruments.

Objectives

The company's long-term objective is to increase its profitability and net worth as a contribution to the ultimate parent company, Fender Musical Instruments Corporation.

Business Strategies

The company's business strategies in achieving its long-term objective remained the same as in 2018:

- Elevate and extend our brands,
- Connect with consumers to build a broad-based Fender community,
- Drive operational efficiencies and improvements with a view to increasing the profit of the company and its partners.

Key Performance Indicators

The company identified the following financial key performance indicators for 2019 to meet its Business Strategies:

- Achieve targeted profit for the financial period,
- Minimise cash balance held at the balance sheet date.

In comparing 2019 to 2018, the company made a profit after tax of £4,074k compared to a loss after tax of £6,259k. The 2019 result included a partial release of the provision made in 2018 relating to the penalty awarded by the UK Competition & Markets Authority ("CMA"), as described in note 14.

The closing cash balance increased due to the timing of cash received at the end of 2019.

Business review

In 2019 the company recorded a growth in its turnover of 13.5% compared to 2018. This was driven by 13.6% growth of Fender branded products, including the "Squier by Fender" range, and 12.7% growth of the Company's Specialty brands.

The Fender electric guitar range grew by 14.20% driven by the launch of new models such as the Acoustasonic Telecaster, American Ultra, Player and Vintera series, together with the introduction of new Artist models. The Squier brand's turnover increased by 27.5%, primarily due to the launch of the revamped Classic Vibe series and the increasing popularity of Fender Play, Fender's online tutorial service. The brands within the Specialty range performed exceptionally well with the EVH and Jackson/Charvel guitar brands, achieving growth levels of 45.1% and 26.2% respectively.

The Other Income represents income related to the provision of sales and marketing support services to Fender International Corporation. This income source remained consistent with 2018 as the level of services provided were similar to 2018.

Administrative expenses decreased overall primarily due to a partial release of the provision made in 2018 relating to the penalty awarded by the CMA as the amount has now been agreed and settled. The increase in operating costs amounted to 1.0%, after being adjusted for the amounts relating the CMA penalty. This can primarily be attributed to the continued investment into marketing activities to support its turnover, particularly on social media platforms and other direct to consumer initiatives. These additional costs were countered by lower legal costs associated with the CMA investigation.

Strategic Report (continued)

In 2019 the company has an Interest Payable and similar expense rather than Interest receivable and similar income. The detrimental impact is due to the company experiencing exchange losses of £160k compared to £50k in 2018.

The Interest receivable relates to amounts charged on interest bearing loans owed by group undertakings, as described in note 7.

Cash balances increased at the end of the year due to the timing of cash received, resulting in the subsequent inability to maximise payments to affiliated companies before the end of the accounting period.

The value of Stock includes Finished Goods and the cost of products not yet delivered within the financial period. In 2019 the timing of the Turnover in December resulted in more products being delivered compared to the prior period.

The Debtors amount is primarily made up of two components; Trade Debtors and Amounts owed by group undertakings. The Trade Debtor balance decreased due to sales being earlier in December compared to 2018.

The Creditors balance decreased overall in comparison to 2018. This was primarily due to amounts being due from, rather than owed to, group undertakings. Although by contrast, the VAT liability was higher due to higher turnover versus the comparative period in 2018.

The Provision for Liabilities in 2019 is related to the aforementioned CMA investigation

Employees

The company recognises its unique position of employing staff who have a high level of loyalty and affiliation to Fender and its related brands and therefore ultimately to the company. The company has personnel policies and programs to appraise, train and promote employees based on their ability, skill, and aptitude and on the requirements of their job. The company has implemented regular benchmarking reviews of staff compensation plans to ensure that salary levels are competitive and key staff are on performance driven salary packages.

Environmental factors

The company takes its responsibility towards the environment seriously. The company recycles damaged products in an environmentally efficient manner as well as ensuring the office waste is recycled as much as possible. The company has complied with the existing legislation including WEEE legislation (Waste Electrical and Electronic Equipment Directive) and Producer Responsibility Obligations (Packaging Waste and Waste Batteries) to ensure that all products are compliant with the relevant regulations.

Risks and uncertainties

The company is exposed to trading risk in the highly competitive retail sector. The company is susceptible to a possible downturn in consumer spending, influenced by factors such as a reduction in disposable income, increases in interest rates and reduced popularity in the brands. Although the company's exposure to direct exchange rate risk is limited, it will be indirectly affected by competitors' responses to exchange rate movements. Such exchange rate movements will have an effect on some competitor's purchase prices, whilst on others it will have an impact on the affected sterling sale price. The company feels that the strength of the brands and the longevity of the products sold will maintain its financial performance during periods of downturn and will limit the effect of large exchange rate fluctuations. The company's ultimate parent has a hedging policy that provides a certainty on purchase prices for the period ahead.

The company is also exposed to operational risks. These are inherent in all businesses and result mainly from a potential breakdown in the company's control of its human, physical and operating resources. The potential effect on the financial performance and reputation arising from failures in internal controls, flaws or malfunctions in computer systems, poor product design and delivery could have a significant adverse effect on the company performance. The company has attempted to reduce the risk by putting in resources, procedures and internal controls as follows:

Strategic Report (continued)

- Quality inspection processes and regular checks for products before they are delivered to customers.
- The employment of experienced staff dedicated to repairing damaged and defective products.
- Regular feedback to suppliers for quality issues on products to reduce avoidable failures in the future.
- Segregation of duties between the order entry, logistics function, finance function and IT function. Furthermore, the logistics function is totally outsourced to a third-party logistics provider complete with its own bonded warehouse, therefore offering increased segregation of duties.
- Production and review of daily, monthly, and annual information on the performance against budgets, forecasts, and prior period.
- An annual budgeting process with regular re-forecasts of results.
- Regular reporting to the board on matters of safety, insurance, and treasury management.
- Regular reviews of the company's internal control procedures by the Corporate Finance department.

The directors are responsible for establishing and maintaining the company's system of internal controls and for reviewing its effectiveness. Internal controls are designed to manage rather than eliminate the risk of misstatement or material loss and can only provide reasonable rather than absolute assurance that this happens.

The economic and political instability created by Brexit is difficult to predict. The company anticipates that there will be impacts on many areas such as, but not limited to, exchange rate volatility, employment of staff, importation of products and adherence to new UK legislation. Despite these challenges, the directors consider that the strength of its brands, quality of Customer Sales and Support and the company's robust operation will provide stability that should allow the company to respond appropriately.

Future Developments

Thus far in 2020 the company has experienced a continuation of the growth against 2019. Within the electric guitar range the growth is projected to come from the launch of new ranges, such as the Fender American Original and the Squier Paranormal. The range will also benefit from the full year effect of the American Ultra, launched in the last quarter of 2019. The expectation is that the Acoustic range will also grow, especially from increased turnover of the California Traditional model. Finally, the amplifier range is forecasted to grow due to forecasted higher turnover for new models such as the GTX Amplifier and full year impact of the re-launch of the 2019 Tone Master model.

The COVID-19 pandemic has brought uncertainties that may affect the company's financial performance, but the directors have moved quickly to manage cash, costs and increase liquidity. The COVID-19 pandemic is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the pandemic, impact on our customers, employees and suppliers, all of which are uncertain and cannot be predicted. To date, the COVID-19 pandemic has not detrimentally affected turnover but might negatively impact its future operating results; however, the related financial impact and duration cannot be reasonably estimated at this time.

In March 2020, the company settled the outstanding CMA penalty for £4,531k.

G A McAuley

GA McAuley

Registered number 3127180

Leo House
Birches Industrial Estate
East Grinstead
West Sussex
RH19 1QZ

20 November 2020

Directors' Report

Results and dividends

The profit for the period, after taxation, amounted to £4,074k *(2018: Loss £6,259k)*. The Directors have not declared a dividend during the period *(2018: £8,000k)*. After making enquiries, the directors have reasonable expectations that the company has adequate resources to continue in operational existence for the foreseeable future. Further information is given in the Basis of Preparation, note 1. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Going Concern

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons:

The company meets its day to day working capital requirements from balances to and from companies in the group headed by Fender Musical Instruments Corporation (see notes 21 and 22). A significant proportion of the company's turnover relates to the distribution of products manufactured by and purchased from those companies at intragroup transfer prices. Intercompany amounts are generally trading balances and are repayable on demand.

The company has continued to trade throughout the Covid 19 period and as of October 2020 has performed better than the same period in 2019. The full extent to which Covid 19 pandemic may impact the Company's future results, operations or liquidity is uncertain.

The directors have prepared cash flow forecasts for a period of at least 12 months from the date of approval of these financial statements which take account of severe but plausible downsides, which include the potential negative impact of Covid 19. The forecasts indicate that the company will have sufficient funds, through additional funding from its ultimate operating parent Fender Musical Instruments Corporation, to meet its liabilities as they fall due for that period.

In assessing the going concern basis, the Directors have considered severe but plausible downside scenarios in preparing forecasts assuming that monthly revenue for the remainder of 2020 through to December 2021 will be at the same level as the corresponding periods in 2019. Based on the forecasts, the company would have positive net current assets and net assets at the end of December 2021. However, under this scenario, there are months where the net position of the intercompany trading balance is in a credit position, after considering cash balances held by the company. Fender Musical Instruments Corporation, the ultimate operating parent company, has indicated its intention to not seek repayments of debts and/or make funds available to cover any shortfall for the period covered by the forecasts for at least 12 months from the date of approval of the financial statements. Any shortfall would include intercompany trading balances in credit. The directors have assessed the financial position of Fender Musical Instruments Corporation and are satisfied Fender Musical Instruments Corporation has the ability to provide the support required by the company and that it is in Fender's economic interests to do so. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue, although at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, 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.

Directors

The directors who held office during the period were as follows:

Gerard Anthony McAuley
Aarash Darroodi (Resigned 17 September 2019)
Karl Meier (Appointed 17 September 2019)
Liam Cunnah (Appointed 17 September 2019)

The company is a wholly owned subsidiary of Fender International Corporation.

Directors' Report (continued)

Political and Charitable Contributions

The company made no political contributions during the period *(2018: £nil)*. Charitable donations for the period amounted to £nil *(2018: £nil)*.

Disclosure of information to auditor

The directors who held office at the date of approval of this Directors' Report confirm that so far as they are aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken 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 that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Events after the end of the Reporting Period (Non adjusting)

The COVID-19 pandemic is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the pandemic, impact on our customers, employees and suppliers, all of which are uncertain and cannot be predicted. To date, the COVID-19 pandemic has not detrimentally affected turnover but might negatively impact its future operating results; however, the related financial impact and duration cannot be reasonably estimated at this time.

By order of the Board

GA McAuley

G A McAuley
Company Secretary

Leo House
Birches Industrial Estate
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West Sussex
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Registered number 3127180

20 November 2020

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 period. 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 FRS102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

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 judgments 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; and
- 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.

KPMG

Independent auditor's report to the members of Fender Musical Instruments Europe Limited

Opinion

We have audited the financial statements of Fender Musical Instruments Europe Limited ("the company") for the period ended 29 December 2019 which comprise the Profit and Loss Account and Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 29 December 2019 and of its profit for the period then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; 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.

Independent Auditors Report (continued)

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.

Director's responsibilities

As explained more fully in their statement set out on page 6, 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 ISA's (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

Independent Auditors Report (continued)

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.

Gemma Hancock

Gemma Hancock (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Forest Gate
Brighton Road
Crawley
West Sussex
RH11 9PT

20 November 2020

Profit and Loss Account and Other Comprehensive Income
for the period ended 29 December 2019

	Note	**52 week period ended 29 December 2019**	52 week period ended 30 December 2018
		Total	Total
		£000	£000
Turnover	2	**40,779**	35,939
Cost of sales		**(36,763)**	(32,210)
Gross profit		**4,016**	3,729
Administrative expenses		**(9,293)**	(19,632)
Other income	6	**10,147**	10,007
Operating profit/(loss)		**4,870**	(5,896)
Interest (payable)/receivable and similar (expenses)/income	7	**(75)**	48
Profit/(loss) before taxation		**4,795**	(5,848)
Tax on profit/(loss)	8	**(721)**	(411)
Profit/(loss) for the financial period		**4,074**	(6,259)
Total comprehensive income/(expenditure)		**4,074**	(6,259)

The accompanying notes set out on pages 14 to 27 form part of these financial statements.

Balance Sheet
at 29 December 2019

	Note	**29 December 2019**		30 December 2018	
		£000	**£000**	£000	£000
Fixed assets					
Tangible assets	*9*		**366**		631
			366		631
Current assets					
Stocks	*10*	**723**		1,002	
Debtors	*11*	**6,578**		6,239	
Cash at bank and in hand	*12*	**891**		208	
		8,192		7,449	
Creditors: amounts falling due within one year	*13*	**(4,595)**		(5,222)	
Net current assets		**3,597**		2,227	
Total assets less current liabilities			**3,963**		2,858
Provisions for liabilities	*14*		**(4,531)**		(7,500)
Net liabilities			**(568)**		(4,642)
Capital and reserves					
Called up share capital	*17*		**60**		60
Profit and loss account			**(628)**		(4,702)
Shareholders' Deficit			**(568)**		(4,642)

The accompanying notes on pages 14 to 27 form part of these financial statements.

These financial statements were approved by the board of directors on 20 November 2020 and were signed on its behalf by:

G A McAuley

G A McAuley
Director

Company registered number 3127180

Statement of Changes in Equity

	Called up Share capital	Profit and loss account	Total equity
	£000	£000	£000
Balance at 31 December 2017	60	9,557	9,617
Total comprehensive income for the period			
Profit or loss	-	(6,259)	(6,259)
Total comprehensive income for the period	-	(6,259)	(6,259)
Dividend		(8,000)	(8,000)
Balance at 30 December 2018	**60**	**(4,702)**	**(4,642)**

	Called up Share capital	Profit and loss account	Total equity
	£000	£000	£000
Balance at 30 December 2018	60	(4,702)	(4,642)
Total comprehensive income for the period			
Profit or loss	-	4,074	4,074
Total comprehensive expenditure/income for the period	-	4,074	4,074
Balance at 29 December 2019	**60**	**(628)**	**(568)**

The accompanying notes on pages 14 to 27 form part of these financial statements.

Cash Flow Statement
for the period ended 29 December 2019

	Note	2019 £000	2018 £000
Profit/(loss) for the period		**4,074**	(6,259)
Interest payable/(receivable)	7	**75**	(48)
Tax		**721**	411
Operating Profit/(Loss)		**4,870**	(5,896)
Adjustments for:			
Depreciation	9	**322**	307
Equity-settled share based payment transactions	16	**59**	12
Foreign exchange (losses)	7	**(160)**	(50)
Interest received	7	**85**	98
		5,176	(5,529)
(Increase)/decrease in trade and other debtors	11	**(364)**	5,322
Decrease/(increase) in stocks	10	**279**	(129)
(Decrease)/increase in trade and other creditors	13	**(944)**	979
(Decrease)/increase in provisions	14	**(2,969)**	7,500
Cash flows from operating activities		**1,178**	8,143
Dividend paid		**-**	(8,000)
Tax paid		**(438)**	(308)
Net cash from operating activities		**740**	(165)
Cash flows from investing activities			
Acquisition of tangible fixed assets	9	**(57)**	(204)
Net cash outflow from investing activities		**(57)**	(204)
Net increase/(decrease) in cash and cash equivalents		**683**	(369)
Cash and cash equivalents at 30 December 2018		**208**	577
Cash and cash equivalents at end of the period	12	**891**	208

The accompanying notes on pages 14 to 27 form part of these financial statements.

Notes
(forming part of the financial statements)

1 Accounting policies

Fender Musical Instruments Europe Ltd (the "Company") is a company limited by shares and incorporated and domiciled in the UK.

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland (*"FRS 102"*). The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The company's ultimate parent undertaking, Fender Musical Instruments Corporation includes the company in its consolidated financial statements. The consolidated financial statements of Fender Musical Instruments Corporation are prepared in accordance with United States Generally Accepted Accounting Principles.

In these financial statements, the company has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Disclosures in respect of transactions with wholly owned subsidiaries or with their parent

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

1.1 Measurement convention

The financial statements are prepared on the historical cost basis.

1.2 Going concern

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons:

The company meets its day to day working capital requirements from balances to and from companies in the group headed by Fender Musical Instruments Corporation (see notes 21 and 22). A significant proportion of the company's turnover relates to the distribution of products manufactured by and purchased from those companies at intragroup transfer prices. Intercompany amounts are generally trading balances and are repayable on demand.

The company has continued to trade throughout the Covid 19 period and as of October 2020 has performed better than the same period in 2019. The full extent to which Covid 19 pandemic may impact the Company's future results, operations or liquidity is uncertain.

The directors have prepared cash flow forecasts for a period of at least 12 months from the date of approval of these financial statements which take account of severe but plausible downsides, which include the potential negative impact of Covid 19. The forecasts indicate that the company will have sufficient funds, through additional funding from its ultimate operating parent Fender Musical Instruments Corporation, to meet its liabilities as they fall due for that period.

In assessing the going concern basis, the Directors have considered severe but plausible downside scenarios in preparing forecasts assuming that monthly revenue for the remainder of 2020 through to December 2021 will be at the same level as the corresponding periods in 2019. Based on the forecasts, the company would have positive net current assets and net assets at the end of December 2021. However, under this scenario, there are months where the net position of the intercompany trading balance is in a credit position, after considering cash balances held by the company. Fender Musical Instruments Corporation, the ultimate operating parent company, has indicated its intention to not seek repayments of debts and/or make funds available to cover any shortfall for the period covered by the forecasts for at least 12 months from the date of approval of the financial statements. Any shortfall would include intercompany trading balances in credit. The directors have assessed the financial position of Fender Musical Instruments Corporation and are satisfied Fender Musical Instruments Corporation has the ability to provide the support required by the company and that it is in Fender's economic interests to do so. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue, although at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, 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.

Notes *(continued)*

Accounting policies *(continued)*

1.3 Foreign currency

Transactions in foreign currencies are translated to the company's functional currency 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 except for differences arising on the retranslation of qualifying cash flow hedges and items which are fair valued with changes taken to other comprehensive income, which are recognised in other comprehensive income.

1.4 Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

1.5 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Leases in which the company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition, a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease. Lease payments are accounted for as described at 1.11 below.

The company assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. The estimated useful lives are as follows:

- plant and equipment 5 years
- fixtures and fittings between 3 and 5 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

1.6 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured stocks and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Notes *(continued)*

Accounting policies *(continued)*

1.7 Impairment excluding stocks and deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment, an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

1.8 Employee benefits

Defined contribution plans and other long-term employee benefits

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Share-based payment transactions

The share option programme allows employees to acquire shares of the company. The fair value of options granted after 7 November 2002 and those not yet vested as at 1 January 2007 is recognised as an employee expense with a corresponding charge from the ultimate parent company. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking in to account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to the exercise value of the option being lower than the value of the shares at the time of vesting.

1.9 Provisions

A provision is recognised in the balance sheet when the company has a present legal or constructive obligation as a result of a past event, that can be reliably measured, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

1.10 Turnover

Turnover comprises the value of sales (excluding Value Added Tax and trade discounts) of goods and services in the normal course of business. Sales are recognized when the risks and rewards of ownership transfer to the customer. This is deemed to occur on delivery.

1.11 Expenses

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Notes *(continued)*

Accounting policies *(continued)*

Interest receivable and Interest payable

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset.

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the company's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

1.12 Taxation

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The timing differences are not provided for on the differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date.

2 Turnover

	2019	2018
	£000	£000
Sale of goods	**40,779**	35,939
Total turnover	**40,779**	35,939
By geographical market		
UK	**33,096**	28,835
Europe	**7,683**	7,104
	40,779	35,939

Notes *(continued)*

3 Expenses and auditor's remuneration

Included in profit/loss are the following:

	2019 £000	2018 £000
Depreciation of owned tangible assets	**322**	307
Operating lease rentals:		
Plant and machinery	**15**	13
Motor vehicles	**94**	109
Land and buildings	**175**	142

Auditor's remuneration:

	2019 £000	2018 £000
Audit of these financial statements	**51**	50

No other services are provided by the Auditor to the company.

4 Staff numbers and costs

The average number of persons employed by the company (including directors) during the period, analysed by category, was as follows:

	Number of employees 2019	2018
Sales and marketing	**76**	76
Warehousing	**1**	1
Administration	**35**	36
	112	113

The aggregate payroll costs of these persons were as follows:

	2019 £000	2018 £000
Wages and salaries	**5,365**	5,102
Share based payments (See note 16)	**59**	12
Social security costs	**559**	549
Contributions to defined contribution plans	**165**	138
	6,148	5,801

Notes *(continued)*

5 Directors' remuneration

	2019 £000	2018 £000
Directors' remuneration	**494**	419
Amounts receivable under long term incentive schemes	**64**	3
Company contributions to money purchase pension plans	**11**	29
Compensation for loss of office	-	238
	569	689

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid director was £229k *(2018: £269k)* and company pension contributions of £3k *(2018: £20k)* were made to a money purchase scheme on his behalf. No share options were exercised by directors in the period *(2018: £nil)*.

6 Other income

	2019 £000	2018 £000
Management Fee	**10,147**	10,007
	10,147	10,007

7 Interest (payable)/receivable and similar (expenses)/income

	2019 £000	2018 £000
Interest on amounts due from group undertakings	**85**	97
Net foreign exchange loss	**(160)**	(50)
Bank interest	-	1
Total interest(payable)/receivable and similar (expenses)/income	(75)	48

Notes *(continued)*

8 Taxation

Total tax expense recognised in the profit and loss account, other comprehensive income and equity

	2019		2018	
	£000	£000	£000	£000
Current tax				
Current tax on income for the period		515		395
Adjustments in respect of prior periods		179		21
Total current tax charge		694		416
Deferred tax (see note 15)				
Origination and reversal of timing differences	27		(5)	
Total deferred tax charge/(credit)	27		(5)	
Total tax charge		721		411

Analysis of current tax recognised in profit and loss

	2019	2018
	£000	£000
UK corporation tax	694	416
Deferred taxation charge/(credit)	27	(5)
Total current tax recognised in profit and loss	721	411

Notes *(continued)*

8 Taxation *(continued)*

Reconciliation of effective tax rate

	2019	2018
	£000	£000
Profit/(loss) for the period	**4,074**	(6,259)
Total tax expense	**721**	411
Profit/(loss) excluding taxation	**4,795**	(5,848)
Tax using the UK corporation tax rate of 19% *(2018: 19%)*	**911**	(1,111)
Release of provision	**(369)**	1,501
Under provided in prior periods	**179**	21
Total tax expense included in profit or loss	**721**	411

Changes to the UK corporation tax rates were enacted on 22 July 2020 as part of the Finance Act 2020, which reversed the decision to reduce the main rate from 19% to 17% from 1 April 2020. The main rate will remain at 19% until 1 April 2022. Deferred taxes at the reporting date have been measured and reflected in these financial statements by using the applicable tax rate of 19%, which will still be applicable in the next financial year.

Notes *(continued)*

9 Tangible fixed assets

	Land and buildings £000	Fixtures & fittings £000	Total £000
Cost			
Balance at 30 December 2018	1,103	956	2,059
Additions	18	39	57
Disposals	-	(9)	(9)
Balance at 29 December 2019	1,121	986	2,107
Depreciation and impairment			
Balance at 30 December 2018	842	586	1,428
Depreciation charge for the period	188	134	322
Disposals	-	(9)	(9)
Balance at 29 December 2019	1,030	711	1,741
Net book value			
At 30 December 2018	261	370	631
At 29 December 2019	**91**	**275**	**366**

Land and Buildings

The net book value of land and buildings comprises:

	2019 £000	2018 £000
Short leasehold	**91**	261
	91	261

Notes *(continued)*

10 Stocks

	2019	2018
	£000	£000
Finished goods	**723**	1,002
	723	1,002

The write-down of stocks to net realisable value amounted to £233k *(2018: £130k)*.

11 Debtors

	2019	2018
	£000	£000
Trade debtors	**2,198**	3,155
Amounts owed by group undertakings (see note 19)	**4,043**	2,757
Other debtors	**9**	9
Deferred tax assets (see note 15)	**-**	23
Prepayments and accrued income	**328**	295
	6,578	6,239

The Amounts owed by group undertakings are repayable on demand and interest is charged. Interest in the period was £85k (*2018: £97k*).

12 Cash and cash equivalents

	2019	2018
	£000	£000
Cash at bank and in hand	**891**	208
Cash and cash equivalents per cash flow statement	**891**	208

Notes *(continued)*

13 Creditors: amounts falling due within one year

	2019 £000	2018 £000
Trade creditors	**189**	276
Amounts owed to parent (see note 19)	**466**	1,334
Amounts owed to group undertakings (see note 19)	**-**	2
Taxation and social security	**1,501**	947
Accruals and deferred income	**1,935**	2,417
Deferred tax liability (see note 15)	**4**	-
Corporation tax	**500**	246
	4,595	5,222

Amounts owed to parent are unsecured, interest free and have no fixed date of repayment.

14 Provisions for liabilities

	2019 £000	2018 £000
Balance at 30 December 2018	**7,500**	-
Provisions made in the period	**-**	7,500
Unused amounts reversed during the period	**(2,969)**	-
	4,531	7,500

In April 2018, the CMA commenced investigations into allegations of anti-competitive behaviour in the UK musical instruments and equipment market by various parties, including the company. In 2018 the company provided £7,500k related to this matter as administrative expenses within these financial statements. In March 2020, the company settled the outstanding CMA penalty of £4,531k.

15 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2019 £000	2018 £000	**2019 £000**	2018 £000	**2019 £000**	2018 £000
Accelerated capital allowances	**-**	-	**(17)**	(27)	**(17)**	(27)
Employee benefits	**13**	50	**-**	-	**13**	50
Tax assets / (liabilities)	**13**	50	**(17)**	(27)	**(4)**	23

Notes *(continued)*

16 Employee benefits

Defined contribution plans

The company operates a defined contribution pension plan.

The total expense relating to this plan in the current period was £165k *(2018: £138k).*

Share based payments

The Board of Directors of Fender Musical Instruments Corporation, the ultimate parent company operates an employee share scheme under which it makes equity-settled share-based payments to certain employees. The exercise price is equal to or greater than the fair value of the shares at the date of the grant, as determined by the ultimate parent's Board of Directors.

The terms and conditions of the grants are as follows:

Grant date	Method of settlement accounting	Number of options	Vesting conditions	Contractual life of options
02 01 2018	Equity	20,000	Unvested	02 01 2028
02 01 2019	Equity	20,000	Unvested	02 01 2029
01 04 2019	Equity	25,000	Unvested	01 04 2029
		65,000		

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price 2019	**Number of options 2019**	**Weighted average exercise price 2018**	**Number of options 2018**
Outstanding at the beginning of the period	**US$ 8.85**	**50,000**	US$ 9.19	140,000
Forfeited during the period	**US$ 8.85**	**(30,000)**	US$ 8.85	(110,000)
Granted during the period	**US$ 13.00**	**45,000**	US$ 8.85	20,000
Outstanding at the end of the period	**US$ 11.72**	**65,000**	US$ 8.85	50,000
Exercisable at the end of the period	**US$ 8.85**	**5,000**	US$ 8.85	15,000

No share options were exercised *(2018: £nil)* and no share options expired *(2018: £nil)* during the period.

The estimate of the fair value of the options is measured based on a Black-Scholes model, using assumptions noted in the information below. Fender Musical Instruments Corporation has elected for a policy of recognising the compensation cost for their awards over the requisite service period for each separate vesting portion (or tranche) of the award as if the award is, in substance, multiple awards. The expected term represents the period of time that options granted are expected to be outstanding. The risk-free interest rate for the periods within the contractual life of the option is based on the U.S. Treasury yield curve. There were 45,000 stock options issued during the period ended 29 December 2019.

Notes *(continued)*

16 Employee benefits *(continued)*

Share based payments (continued)

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

The total expenses recognised for the period and the total liabilities recognised at the end of the period arising from share-based payments are as follows:

	2019	2018
	£000	£000
Total share-based payment expense	**59**	12

The company is a member of a group share-based payment plan, and it recognises and measures its share-based payment expense on the basis of a reasonable allocation of the expense recognised by the group.

17 Capital and reserves

	2019	2018
	£000	£000
Allotted, called up and fully paid		
60,000 ordinary shares of £1 each	**60**	60
	60	60
Shares classified in shareholders' funds	**60**	60
	60	60

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company.

18 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2019	2018
	£000	£000
Less than one year	**212**	229
Between one and five years	**94**	169
	306	398

During the period £284k was recognised as an expense in the profit and loss account in respect of operating leases *(2018: £264k)*.

Notes *(continued)*

19 Contingent liabilities

The company has provided a bank guarantee of £40k (2018: £40k) in favour of HM Customs & Excise relating to amounts due on UK inbound duty and VAT. The bank guarantee is secured on credit balances held in the company's UK Sterling bank account.

20 Related parties

Identity of related parties with which the company has transacted

In these financial statements, the company has applied the exemptions available under FRS 102 in respect of disclosures for transactions with wholly owned subsidiaries or its parent.

Transactions with key management personnel

Total compensation of key management personnel in the period amounted to £569k (*2018: £689k*).

Other related party transactions

	Receivables outstanding		Creditors outstanding	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
Key management personnel of the company or its Parent	**-**	-	**466**	1,334
Other subsidiaries of the group	**4,043**	2,757	**-**	2
	4,043	2,757	**466**	1,336

21 Immediate and ultimate parent company

The company is a subsidiary undertaking of Fender International Corporation (incorporated in USA).

The largest group in which the results of the company are consolidated is that headed by Servco Pacific Corporation (incorporated in USA). The group accounts are prepared by Servco Pacific, Incorporated at 2850 Pukoloa Street, Suite 300 Honolulu, Hawaii 96819, USA.

In the opinion of the directors, the company's ultimate parent company and ultimate controlling party is Fender Musical Instruments Corporation, a company incorporated in USA. Fender Musical Instruments Corporation is the smallest group in which the results of the company are consolidated. The group accounts are prepared at 17600 N. Perimieter Drive, Suite 100, Scottsdale, Arizona, AZ 85255, USA.

The parent undertaking of the largest group, which includes the company and for which group accounts are prepared, is Servco Pacific, Incorporated, a company incorporated in USA. The group accounts are prepared at 2850 Pukoloa Street, Suite 300 Honolulu, Hawaii 96819, USA.

22 Events after the end of the Reporting Period (Non adjusting)

The COVID-19 pandemic has brought uncertainties that may affect the company's financial performance, but the directors have moved quickly to manage cash, costs and increase liquidity. The COVID-19 pandemic is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the pandemic, impact on our customers, employees and suppliers, all of which are uncertain and cannot be predicted. To date, the COVID-19 pandemic has not detrimentally affected turnover but might negativcly impact its future operating results; however, the related financial impact and duration cannot be reasonably estimated at this time.

On 24 February 2020, Servco Pacific, Incorporated, a company incorporated in USA, become the majority shareholder of Fender Musical Instruments Corporation. The group accounts are prepared at 2850 Pukoloa Street, Suite 300 Honolulu, Hawaii 96819, USA.