

Focusrite

Strategic acquisition using cash resources

Focusrite has announced the €18.0m strategic acquisition of ADAM Audio, a leading German developer and global distributor of professional studio monitor loudspeakers, funded entirely from existing cash resources. Although continuing to operate as an autonomous subsidiary, we see clear opportunities to cross-sell to Focusrite's global customer base of amateur and professional music markers and to leverage its distribution network. We increase our forecast FY20e PBT by 5% to £13.3m and raise our DCF-based valuation to 530p per share (previously 471p).

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
08/17	66.1	9.5	14.8	2.7	35.3	0.5
08/18	75.1	11.3	17.5	3.3	29.9	0.6
08/19e	79.8	12.5	19.0	3.6	27.6	0.7
08/20e	91.4	13.3	19.9	3.7	26.3	0.7

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. EPS based on diluted number of shares.

Transaction highlights

Focusrite has acquired Pro Audio, the holding company for ADAM Audio and its subsidiaries (ADAM) for a cash consideration of €18.0m (£16.2m), representing 1.4x price/sales and 18x price/earnings multiples for 2018. In the year to 31 December 2018, ADAM delivered sales of €12.9m, adj. EBITDA of €1.7m and PBT of €1.0m. Net assets at 31 December 2018 were €4.1m, mainly comprising high quality stock. After the acquisition Focusrite expects to have net cash of c £12m.

Strategically aligned with core business

ADAM places great emphasis on product design and innovation and its ranges, including the recently launched more affordable T-Series, the all-rounder professional AX-Series and flagship S-Series, are well aligned to Focusrite's existing customer base. Although management intends for ADAM to continue operating autonomously as a subsidiary with standalone offices in Germany, the US and China, there are clear opportunities for cross-selling and to leverage Focusrite's global distribution network.

Earnings enhancing in first full year of consolidation

We forecast ADAM's revenue to grow modestly by 3% y-o-y and assume margins remain stable. In FY19e we factor in 1.5 months of ADAM's sterling equivalent revenue and earnings, resulting in a modest PBT increase. In FY20e we factor in a full year of ADAM's revenue and earnings, offset by the cautious assumption that Focusrite's current distribution of third-party studio monitors ceases (c £3m of revenue). We increase our FY20 PBT forecast by 5% to £13.3m.

Valuation: Reflecting modest growth assumptions

Based on conservative growth assumptions for ADAM, our DCF-based valuation increases to 530p per share (vs 471p), slightly ahead of the current share price. We expect to gain greater visibility on growth prospects when the company reports FY19 results.

Strategic acquisition

Consumer electricals

23 July 2019

Price 523p
Market cap £304m

Net cash (£m) at 28 February 2019	26.2
Shares in issue	58.1m
Free float	61%
Code	TUNE
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(2.1)	12.9	15.0
Rel (local)	(3.4)	12.4	18.4
52-week high/low		560p	364p

Business description

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

Next events

Pre-close	September 2019
Final results	November 2019

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Exhibit 1: Financial summary

	£'000s	2017	2018	2019e	2020e
31-August		IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
Revenue		66,055	75,121	79,786	91,395
Cost of Sales		(39,704)	(43,447)	(45,469)	(52,705)
Gross Profit		26,351	31,674	34,317	38,691
EBITDA		13,109	15,485	16,264	17,736
Operating profit (before amort. and except).		9,470	11,613	12,464	13,285
Amortisation of acquired intangibles		0	0	0	0
Exceptionals		0	329	(648)	0
Share-based payments		0	0	0	0
Reported operating profit		9,470	11,942	11,816	13,285
Net Interest		42	(270)	20	60
Joint ventures & associates (post tax)		0	0	0	0
Exceptionals		0	0	0	0
Profit Before Tax (norm)		9,512	11,343	12,484	13,345
Profit Before Tax (reported)		9,512	11,672	11,836	13,345
Reported tax		(959)	(1,199)	(1,386)	(1,601)
Profit After Tax (norm)		8,553	10,144	11,098	11,744
Profit After Tax (reported)		8,553	10,473	10,450	11,744
Minority interests		0	0	0	0
Discontinued operations		0	0	0	0
Net income (normalised)		8,553	10,144	11,098	11,744
Net income (reported)		8,553	10,473	10,450	11,744
Average number of Shares Outstanding (m)		55.4	56.8	57.7	58.1
EPS - normalised (p)		15.4	17.9	19.2	20.2
EPS - normalised fully diluted (p)		14.8	17.5	19.0	19.9
EPS - basic reported (p)		15.4	18.4	18.1	20.2
Dividend per share (p)		2.7	3.3	3.6	3.7
Revenue growth (%)		21.6	13.7	6.2	14.6
Gross Margin (%)		39.9	42.2	43.0	42.3
EBITDA Margin (%)		19.8	20.6	20.4	19.4
Normalised Operating Margin		14.3	15.5	15.6	14.5
BALANCE SHEET					
Fixed Assets		6,332	7,314	10,452	13,204
Intangible Assets		4,963	6,039	8,895	11,503
Tangible Assets		1,369	1,275	1,558	1,701
Investments & other		0	0	0	0
Current Assets		36,126	47,612	42,142	50,049
Stocks		9,000	11,391	16,195	17,328
Debtors		12,952	13,310	14,318	16,026
Cash & cash equivalents		14,174	22,811	11,527	16,592
Other		0	100	102	104
Current Liabilities		(8,663)	(11,136)	(12,203)	(12,844)
Creditors		(8,204)	(10,709)	(11,710)	(12,274)
Tax and social security		(459)	(427)	(493)	(570)
Short term borrowings		0	0	0	0
Other		0	0	0	0
Long Term Liabilities		(245)	(300)	(452)	(592)
Long term borrowings		0	0	0	0
Other long term liabilities		(245)	(300)	(452)	(592)
Net Assets		33,550	43,490	39,938	49,818
Minority interests		0	0	0	0
Shareholders' equity		33,550	43,490	39,938	49,818
CASH FLOW					
Op Cash Flow before WC and tax		13,109	15,485	16,264	17,736
Working capital		407	(427)	(4,810)	(2,277)
Exceptional & other		137	203	(648)	(0)
Tax		(633)	(478)	(1,386)	(1,601)
Net operating cash flow		13,020	14,783	9,420	13,858
Capex		(3,614)	(4,507)	(5,852)	(6,704)
Acquisitions (net of acquired working capital)		0	0	(12,800)	0
Net interest		(42)	(36)	20	60
Equity financing		258	306	0	0
Dividends		(1,138)	(1,679)	(2,071)	(2,150)
Other		84	(230)	0	0
Net Cash Flow		8,568	8,637	(11,284)	5,065
Opening net debt/(cash)		(5,606)	(14,174)	(22,811)	(11,527)
FX		0	0	0	0
Other non-cash movements		0	0	0	0
Closing net debt/(cash)		(14,174)	(22,811)	(11,527)	(16,592)

Source: Focusrite accounts, Edison Investment research

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