

Focusrite

Marching on

H120 trading update

Consumer electricals

26 March 2020

Price 428p
Market cap £249m

Net debt (£m) at February 2020 20.0
Shares in issue 58.1m
Free float 60%
Code TUNE
Primary exchange LSE
Secondary exchange N/A

Share price performance



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

H120 results April 2020

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Focusrite has issued a reassuring trading update for H120. Sales growth is in line with expectations, against a tough comparative. With the majority of sourcing from Asia, there had been fears about its ability to continue sourcing product to satisfy consumer demand, which still looks 'buoyant', but deliveries have resumed quickly. Our underlying forecasts are unchanged, but we incorporate the acquisition of Martin Audio, leading to EPS upgrades of 1% for FY20 and 7% for FY21. The recent de-rating has brought multiples back towards historic averages: EV/EBITDA for FY20e of 12.2x (average of 11.1x) and P/E for FY20e of 19.5x (average of 17.8x).

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
08/18	75.1	11.3	17.8	3.3	24.0	0.8
08/19	84.7	13.8	21.4	3.8	20.0	0.9
08/20e	111.6	14.4	21.9	3.9	19.5	0.9
08/21e	123.7	15.6	23.5	4.0	18.2	0.9

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

H120 trading: Encouraging

The trading update for H120 indicates that revenue has grown by c 24% to c £50m. The acquisitions of ADAM Audio and Martin Audio contributed c £12m, and therefore underlying revenue for the core Focusrite business reduced by 6%, to £38m. This is against a tough comparative when it benefited from tariff-related price increases in the US. In addition, orders for £2m, which could not be fulfilled during H120 due the impact of COVID-19, will fall into H220. Cash generation has been positive: net debt of c £20m compares with c £25m post the acquisition of Martin Audio at the end of December 2019. The announcement that Jeremy Wilson, CFO since the IPO in 2014, will leave by the end of CY20, should ensure a smooth handover.

No change to underlying forecasts for FY20

We leave our underlying forecasts for FY20 unchanged. At present, demand continues to look encouraging; management points to 'buoyant' demand but the outbreak of COVID-19 could have both a positive and negative influence on supply and demand. On the positive side, enforced isolation could increase demand as musicians and hobbyists have more time to devote to music. On the negative side, fulfilment of orders from online retailers etc could be more challenging, halting the live performance market could negatively affect demand and there could be further supply disruptions from sourcing. Shipping from Asia to Europe and the US takes c four weeks. We now incorporate the acquisition of Martin Audio into our forecasts for FY20 and FY21. Our FY20 EPS forecast increases by 1% to 21.9p from 21.7p, and our FY21 EPS forecast increases by 7% to 23.5p from 21.9p.

Valuation: Recent de-rating

On our new forecasts, the EV/EBITDA multiples for FY20e and FY21e are 12.2x and 11.7x respectively versus an average since IPO of 11.1x. The P/E multiples for FY20e and FY21e are 19.5x and 18.2x versus the average since the IPO of 17.8x.

Exhibit 1: Financial summary

	£'k	2017	2018	2019	2020e	2021e
31-August		IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue		66,055	75,121	84,665	111,594	123,714
Cost of Sales		(39,704)	(43,447)	(48,899)	(64,278)	(71,012)
Gross Profit		26,351	31,674	35,766	47,316	52,702
EBITDA		13,109	15,485	17,197	20,432	22,219
Operating profit (before amort. and except).		9,470	11,613	13,549	14,815	15,663
Amortisation of acquired intangibles		0	0	0	(3,075)	(3,690)
Exceptionals		0	329	(737)	(2,600)	0
Share-based payments		0	0	0	0	0
Reported operating profit		9,470	11,942	12,812	9,140	11,973
Net Interest		42	(270)	201	(390)	(100)
Joint ventures & associates (post tax)		0	0	0	0	0
Exceptionals		0	0	0	0	0
Profit Before Tax (norm)		9,512	11,343	13,750	14,425	15,563
Profit Before Tax (reported)		9,512	11,672	13,013	8,750	11,873
Reported tax		(959)	(1,199)	(1,349)	(1,659)	(1,790)
Profit After Tax (norm)		8,553	10,144	12,401	12,766	13,773
Profit After Tax (reported)		8,553	10,473	11,664	7,091	10,083
Minority interests		0	0	0	0	0
Discontinued operations		0	0	0	0	0
Net income (normalised)		8,553	10,207	12,401	12,766	13,773
Net income (reported)		8,553	10,473	11,664	7,091	10,083
Average number of Shares Outstanding (m)		54.6	56.2	57.2	57.5	57.8
EPS - normalised (p)		15.7	18.1	21.7	22.2	23.8
EPS - normalised fully diluted (p)		14.7	17.8	21.4	21.9	23.5
EPS - basic reported (p)		15.7	18.6	20.4	12.3	17.5
Dividend per share (p)		2.7	3.3	3.8	3.9	4.0
Revenue growth (%)		21.6	13.7	12.7	31.8	10.9
Gross Margin (%)		39.9	42.2	42.2	42.4	42.6
EBITDA Margin (%)		19.8	20.6	20.3	18.3	18.0
Normalised Operating Margin		14.3	15.5	16.0	13.3	12.7
BALANCE SHEET						
Fixed Assets		6,332	7,314	25,705	58,831	55,922
Intangible Assets		4,963	6,039	24,103	56,872	53,660
Tangible Assets		1,369	1,275	1,602	1,959	2,262
Investments & other		0	0	0	0	0
Current Assets		36,126	47,612	48,875	37,716	42,371
Stocks		9,000	11,391	15,182	19,372	22,374
Debtors		12,952	13,310	18,188	18,344	19,998
Cash & cash equivalents		14,174	22,811	15,505	0	0
Other		0	100	0	0	0
Current Liabilities		(8,663)	(11,136)	(16,909)	(15,729)	(16,384)
Creditors		(8,204)	(10,709)	(15,664)	(14,969)	(15,564)
Tax and social security		(459)	(427)	(618)	(760)	(820)
Short term borrowings		0	0	(627)	0	0
Other		0	0	0	0	0
Long Term Liabilities		(245)	(300)	(4,284)	(24,619)	(13,499)
Long term borrowings		0	0	0	(15,292)	(4,903)
Other long term liabilities		(245)	(300)	(4,284)	(9,327)	(8,596)
Net Assets		33,550	43,490	53,387	56,199	68,410
Minority interests		0	0	0	0	0
Shareholders' equity		33,550	43,490	53,387	56,199	68,410
CASH FLOW						
Op Cash Flow before WC and tax		13,109	15,485	17,197	20,432	22,219
Working capital		407	(426)	(2,218)	(5,041)	(4,060)
Exceptional & other		137	203	(386)	475	3,690
Tax		(633)	(478)	(825)	(1,659)	(1,790)
Net operating cash flow		13,020	14,784	13,768	14,207	20,059
Capex		(3,614)	(4,512)	(4,943)	(6,548)	(7,259)
Acquisitions (net of acquired working capital)		0	0	(14,996)	(35,200)	0
Net interest		(42)	(36)	58	(390)	(100)
Equity financing		258	306	0	0	0
Dividends		(1,138)	(1,679)	(2,005)	(2,239)	(2,311)
Other		84	(226)	185	0	0
Net Cash Flow		8,568	8,637	(7,933)	(30,170)	10,389
Opening net debt/(cash)		(5,606)	(14,174)	(22,811)	(14,878)	15,292
FX		0	0	0	0	0
Other non-cash movements		0	0	0	0	0
Closing net debt/(cash)		(14,174)	(22,811)	(14,878)	15,292	4,903

Source: Company accounts, Edison Investment Research

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