

# Focusrite

FY19 results

A warm tone

Focusrite has delivered strong FY19 results, highlighting improved revenue momentum with a favourable reception of new product releases, better-than-expected margin delivery and encouraging trading on its first major acquisition since IPO, ADAM Audio. We increase our underlying assumptions for FY20 to reflect the improved trading and gross margin benefits from a shift in sourcing, but forex translation (notably strengthening sterling versus the euro) tempers the upgrade to c 4% for FY20. Our DCF-based valuation increases to 618p from 544p.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
08/18	75.1	11.3	17.6	3.3	30.6	0.6
08/19	84.7	13.8	21.4	3.8	25.2	0.7
08/20e	95.6	14.2	21.7	3.9	24.8	0.7
08/21e	99.0	14.4	21.9	4.0	24.7	0.7

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

## FY19 results: Solid trends

Following the upbeat trading update in September, FY19 results were ahead of our expectations. Revenue grew by 12.7%, clean PBT by 21.2% and DPS by 15.2%. All geographic regions grew: constant currency revenue growth (ex M&A) of 5.6% improved versus the 0.5% in H119 due to a better H219 in North America (a strong reception for the new Scarlett interface) and rest of world. The gross margin of 42.2% was stable year on year, a good performance given the continuous US tariff increases. To mitigate further US tariff increases, Focusrite will source US production for Scarlett from Malaysia rather than China. By product category, Focusrite was the key driver of growth, whereas Focusrite Pro and Novation were affected by products coming to the end of their lifecycles; relaunches post year-end provide support for a better FY20. The recent acquisition, ADAM Audio, contributed for just six weeks of FY19, but is performing slightly ahead of expectations.

## Underlying upgrades for FY20

We have upgraded our underlying FY20 forecasts, reflecting improved underlying trading in the US, and increased gross margin due to the benefit of shift of sourcing to Malaysia. We assume underlying revenue growth of 2–3% in North America and EMEA, and 5% in rest of world for FY20 and FY21. We now assume gross margin increases by 20bp in FY20, versus a 50bp deterioration previously. The weakening euro (current €1.17/£ versus FY19 blended €1.11) is a translational headwind to Focusrite's euro-based revenue with limited euro-based costs. Our PBT forecast for FY20 increases by c 4% from £13.7m to £14.2m.

## Valuation: DCF valuation upgraded by 13%

Our DCF-based valuation increases to 618p from 544p to reflect the upgrades to estimates and rolling forward the DCF. On our new forecasts the EV/EBITDA multiple for FY20 and FY21 are 16.1x and 15.5x respectively.

Consumer electricals

20 November 2019

**Price** **540p**  
**Market cap** **£314m**

Net cash (£m) at 31 August 2019	14.9
Shares in issue	58.1m
Free float	60%
Code	TUNE
Primary exchange	LSE
Secondary exchange	N/A

### Share price performance



%	1m	3m	12m
Abs	(2.0)	23.2	29.3
Rel (local)	(4.1)	19.8	22.6
52-week high/low		591p	425p

### 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

AGM statement	20 December 2019
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**Exhibit 1: Financial summary**

	£'k	2017	2018	2019	2020e	2021e
31-August		IFRS	IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>						
Revenue		66,055	75,121	84,665	95,645	98,992
Cost of Sales		(39,704)	(43,447)	(48,899)	(55,091)	(56,822)
Gross Profit		26,351	31,674	35,766	40,553	42,171
EBITDA		13,109	15,485	17,197	18,521	19,257
Operating profit (before amort. and except).		9,470	11,613	13,549	14,069	14,193
Amortisation of acquired intangibles		0	0	0	0	0
Exceptionals		0	329	(737)	0	0
Share-based payments		0	0	0	0	0
Reported operating profit		9,470	11,942	12,812	14,069	14,193
Net Interest		42	(270)	201	150	200
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	14,219	14,393
Profit Before Tax (reported)		9,512	11,672	13,013	14,219	14,393
Reported tax		(959)	(1,199)	(1,349)	(1,635)	(1,655)
Profit After Tax (norm)		8,553	10,144	12,401	12,584	12,738
Profit After Tax (reported)		8,553	10,473	11,664	12,584	12,738
Minority interests		0	0	0	0	0
Discontinued operations		0	0	0	0	0
Net income (normalised)		8,553	10,207	12,401	12,584	12,738
Net income (reported)		8,553	10,473	11,664	12,584	12,738
Average number of Shares Outstanding (m)		55.4	56.8	57.7	58.1	58.1
EPS - normalised (p)		14.8	17.9	20.0	20.8	21.8
EPS - normalised fully diluted (p)		14.8	17.6	21.4	21.7	21.9
EPS - basic reported (p)		15.4	18.4	20.2	21.7	21.9
Dividend per share (p)		2.7	3.3	3.8	3.9	4.0
Revenue growth (%)		21.6	13.7	12.7	13.0	3.5
Gross Margin (%)		39.9	42.2	42.2	42.4	42.6
EBITDA Margin (%)		19.8	20.6	20.3	19.4	19.5
Normalised Operating Margin		14.3	15.5	16.0	14.7	14.3
<b>BALANCE SHEET</b>						
Fixed Assets		6,332	7,314	25,705	15,882	17,175
Intangible Assets		4,963	6,039	24,103	14,088	15,256
Tangible Assets		1,369	1,275	1,602	1,794	1,919
Investments & other		0	0	0	0	0
Current Assets		36,126	47,612	48,875	55,365	64,806
Stocks		9,000	11,391	15,182	16,603	17,903
Debtors		12,952	13,310	18,188	15,722	16,002
Cash & cash equivalents		14,174	22,811	15,505	23,040	30,902
Other		0	100	0	0	0
Current Liabilities		(8,663)	(11,136)	(16,282)	(13,579)	(13,212)
Creditors		(8,204)	(10,709)	(15,664)	(12,830)	(12,454)
Tax and social security		(459)	(427)	(618)	(749)	(758)
Short term borrowings		0	0	0	0	0
Other		0	0	0	0	0
Long Term Liabilities		(245)	(300)	(4,284)	(2,006)	(2,271)
Long term borrowings		0	0	0	0	0
Other long term liabilities		(245)	(300)	(4,284)	(2,006)	(2,271)
Net Assets		33,550	43,490	54,014	55,663	66,497
Minority interests		0	0	0	0	0
Shareholders' equity		33,550	43,490	54,014	55,663	66,497
<b>CASH FLOW</b>						
Op. Cash Flow before WC and tax		13,109	15,485	17,197	18,521	19,257
Working capital		407	(426)	(2,313)	(1,790)	(1,954)
Exceptional & other		137	203	(386)	(0)	(0)
Tax		(633)	(478)	(825)	(1,635)	(1,655)
Net operating cash flow		13,020	14,784	13,673	15,096	15,647
Capex		(3,614)	(4,512)	(4,943)	(5,504)	(5,697)
Acquisitions (net of acquired working capital)		0	0	(14,274)	0	0
Net interest		(42)	(36)	58	150	200
Equity financing		258	306	0	0	0
Dividends		(1,138)	(1,679)	(2,005)	(2,206)	(2,289)
Other		84	(226)	185	0	0
Net Cash Flow		8,568	8,637	(7,306)	7,535	7,861
Opening net debt/(cash)		(5,606)	(14,174)	(22,811)	(15,505)	(23,040)
FX		0	0	0	0	0
Other non-cash movements		0	0	0	0	0
Closing net debt/(cash)		(14,174)	(22,811)	(15,505)	(23,040)	(30,901)

Source: Company accounts, Edison Investment Research

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