

Focusrite

Positive trading update to November

Focusrite reports a strong November, leaving its Q1 ahead year-on-year, a positive result compared with many retailers. While its wide international spread is helpful, uncertainties remain on consumer markets generally, on US tariffs and on Brexit. We retain a cautious forecasting stance, while the valuation reflects the ongoing potential of its market-leading brands.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	EV/EBITDA (x)	Yield (%)
08/17	66.1	9.5	14.8	2.7	32.1	20.0	0.6
08/18	75.1	11.3	17.5	3.3	27.1	16.9	0.7
08/19e	78.0	11.8	17.9	3.6	26.6	16.5	0.7
08/20e	81.7	12.0	18.0	3.7	26.3	15.3	0.8

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

A small...

With its December AGM, Focusrite updates on trading to November, which is only a month beyond the comment in the final results. We published an extended note, [The song remains the same](#), in November 2018.

...but significant update

Trading was strong in the important month of November, having been 'broadly similar' in September and October. As a result, the first quarter ends ahead of Q118. The November result is significant because Q118 was itself a strong quarter driven by a boost in pre-Christmas demand.

Maintaining modest growth forecast

While positive progress for Q1 is encouraging, the consumer environment clearly remains uncertain, especially in Europe. In our November note, we considered the sensitivity of results to US tariffs on goods sourced in China, along with our forecast assumptions. While there have been indications that the trade dispute is moving towards a negotiation phase, the disposition remains uncertain and currently the US still plans to increase the relevant import tariffs from 10% to 25%. We also set out the (lower-level) sensitivities to a no-deal Brexit, which clearly remain. For all these reasons, we make no change to our forecast of modest 4% PBT growth for FY19.

Valuation: Does not reflect cash utilisation

The current share price is broadly equivalent to the DCF, as set out in our November note. This assumes 10% revenue growth for five years beyond our forecast, fading to 2% in perpetuity, with terminal EBITDA margin of 21%, and cost of capital of 8.4%. That excludes investment returns on Focusrite's excess cash of £22.8m (at August 2018), which at a P/E of 20x would represent 39p of additional value, we calculate.

AGM & trading update

Consumer electronics

21 December 2018

Price 475p

Market cap £276m

Net cash (£m) at 31 August 2018 22.8

Shares in issue 58.1m

Free float 59%

Code TUNE

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 9.3 9.3 47.7

Rel (local) 13.4 21.4 66.6

52-week high/low 504p 320p

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

Trading update March 2019

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Exhibit 1: Financial summary

	£'000s	2016	2017	2018	2019e	2020e	2021e
31-August		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT							
Revenue		54,301	66,055	75,121	77,985	81,709	85,794
Cost of Sales		(33,439)	(39,704)	(43,447)	(44,722)	(46,786)	(49,039)
Gross Profit		20,862	26,351	31,674	33,264	34,923	36,755
EBITDA		10,249	13,109	15,485	15,901	16,519	17,292
Operating profit (before amort. and except).		7,677	9,470	11,613	11,790	11,972	12,243
Amortisation of acquired intangibles		0	0	0	0	0	0
Exceptionals		(537)	0	329	0	0	0
Share-based payments		0	0	0	0	0	0
Reported operating profit		7,140	9,470	11,942	11,790	11,972	12,243
Net Interest		(14)	42	(270)	20	60	70
Joint ventures & associates (post tax)		0	0	0	0	0	0
Exceptionals		0	0	0	0	0	0
Profit Before Tax (norm)		7,663	9,512	11,343	11,810	12,032	12,313
Profit Before Tax (reported)		7,126	9,512	11,672	11,810	12,032	12,313
Reported tax		(870)	(959)	(1,199)	(1,417)	(1,444)	(1,478)
Profit After Tax (norm)		6,793	8,553	10,144	10,393	10,588	10,836
Profit After Tax (reported)		6,256	8,553	10,473	10,393	10,588	10,836
Minority interests		0	0	0	0	0	0
Discontinued operations		0	0	0	0	0	0
Net income (normalised)		6,900	8,553	10,144	10,393	10,588	10,836
Net income (reported)		6,256	8,553	10,473	10,393	10,588	10,836
Average number of Shares Outstanding (m)		53.2	55.4	56.8	56.8	56.8	56.8
EPS - normalised (p)		13.0	14.8	17.5	17.9	18.0	21.0
EPS - normalised (p)		11.8	14.8	17.5	17.9	18.0	18.6
EPS - basic reported (p)		11.8	15.4	18.4	18.3	18.6	19.1
Dividend per share (p)		2.0	2.7	3.3	3.6	3.7	3.9
Revenue growth (%)		13.1	21.6	13.7	3.8	4.8	5.0
Gross Margin (%)		38.4	39.9	42.2	42.7	42.7	42.8
EBITDA Margin (%)		18.9	19.8	20.6	20.4	20.2	20.2
Normalised Operating Margin		14.1	14.3	15.5	15.1	14.7	14.3
BALANCE SHEET							
Fixed Assets		6,367	6,332	7,314	8,653	9,845	10,822
Intangible Assets		4,792	4,963	6,039	7,559	8,884	10,074
Tangible Assets		1,575	1,369	1,275	1,094	961	749
Investments & other		0	0	0	0	0	0
Current Assets		28,191	36,126	47,612	54,270	61,460	68,674
Stocks		11,361	9,000	11,391	11,995	12,548	13,287
Debtors		11,224	12,952	13,310	14,288	14,970	15,953
Cash & cash equivalents		5,606	14,174	22,811	27,886	33,838	39,328
Other		0	0	100	102	104	106
Current Liabilities		(9,256)	(8,663)	(11,136)	(11,258)	(11,764)	(12,184)
Creditors		(8,612)	(8,204)	(10,709)	(10,754)	(11,250)	(11,657)
Tax and social security		(644)	(459)	(427)	(505)	(514)	(526)
Short term borrowings		0	0	0	0	0	0
Other		0	0	0	0	0	0
Long Term Liabilities		(282)	(245)	(300)	(381)	(452)	(515)
Long term borrowings		0	0	0	0	0	0
Other long term liabilities		(282)	(245)	(300)	(381)	(452)	(515)
Net Assets		25,020	33,550	43,490	51,283	59,089	66,797
Minority interests		0	0	0	0	0	0
Shareholders' equity		25,020	33,550	43,490	51,283	59,089	66,797
CASH FLOW							
Op. Cash Flow before WC and tax		10,249	13,109	15,485	15,901	16,519	17,292
Working capital		(6,009)	407	(427)	(1,537)	(739)	(1,315)
Exceptional & other		(417)	137	203	(0)	(0)	(0)
Tax		(165)	(633)	(478)	(1,417)	(1,444)	(1,478)
Net operating cash flow		3,658	13,020	14,783	12,947	14,335	14,500
Capex		(3,675)	(3,614)	(4,507)	(5,850)	(6,293)	(6,814)
Acquisitions/disposals		0	0	0	0	0	0
Net interest		(111)	(42)	(36)	20	60	70
Equity financing		172	258	306	0	0	0
Dividends		(976)	(1,138)	(1,679)	(2,042)	(2,150)	(2,266)
Other		365	84	(230)	0	0	0
Net Cash Flow		(567)	8,568	8,637	5,075	5,952	5,490
Opening net debt/(cash)		(6,173)	(5,606)	(14,174)	(22,811)	(27,886)	(33,838)
FX		0	0	0	0	0	0
Other non-cash movements		0	0	0	0	0	0
Closing net debt/(cash)		(5,606)	(14,174)	(22,811)	(27,886)	(33,838)	(39,328)

Source: Company accounts, Edison Investment Research

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