Focusrite plc

Focusrite plc Annual Report and Accounts 2023

# empowering CREATIVITY

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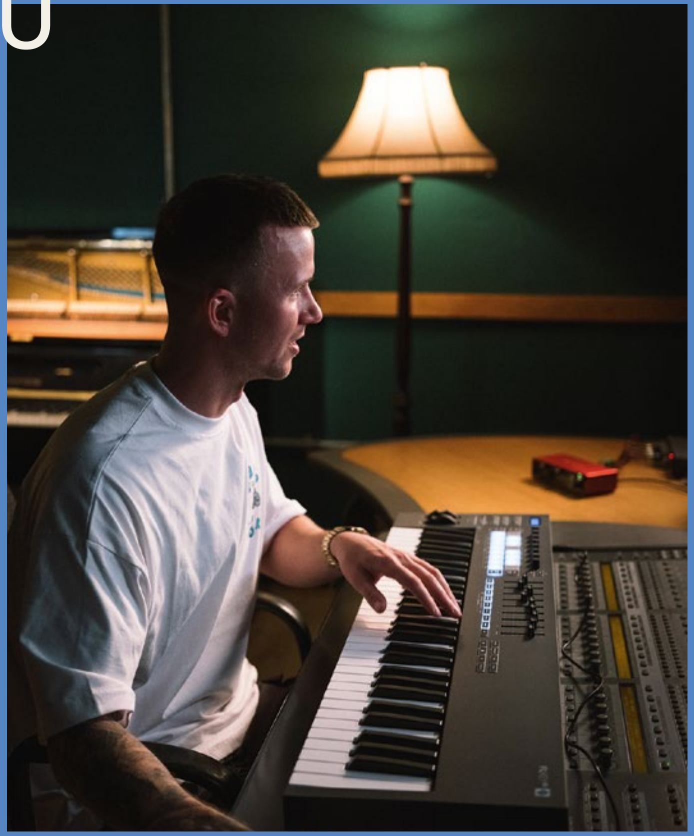
# Five Reasons to Invest

# WORLD-LEADING BRANDS DELIVERING INNOVATION IN A GROWING GLOBAL MARKET

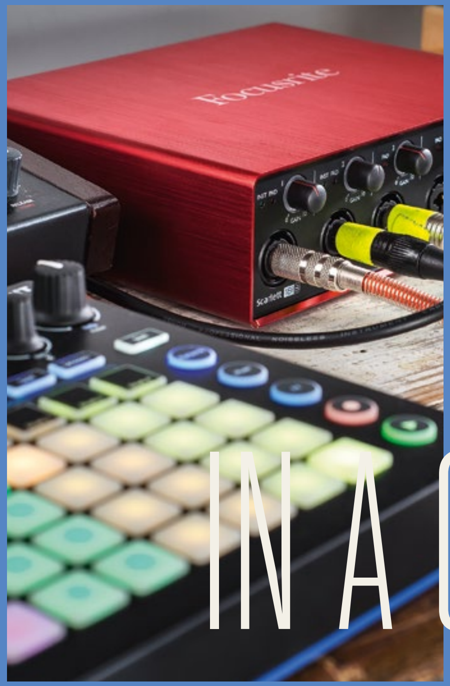


## Growing market

A global market of £5.5 billion across both our divisions.

Technology enabling a democratisation of content creation and underlying growth across all markets globally. Our markets are currently challenged by cost of living issues impacting short term growth.

After COVID-19 the Audio Reproduction market is seeing increased demand for experiences – including live and installed sound.



## World-leading brands

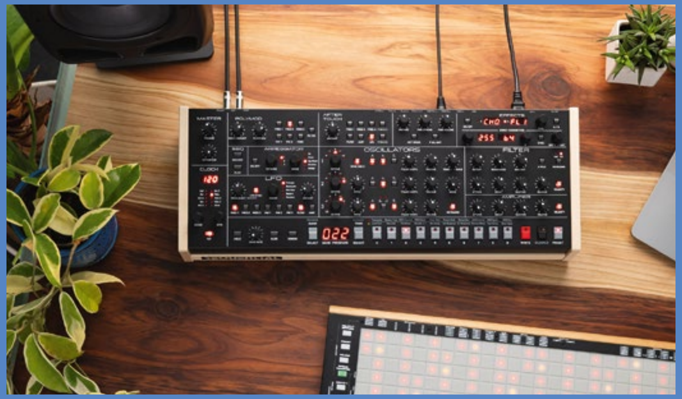
A diverse portfolio of 11 established brands with strong positions in their respective segments.

Continued growth and democratisation in audio content, enabled by technology that fuels creativity for customers at all levels.

## Strong product innovation

Decades of experience in developing leading proprietary hardware and software products for audio professionals and musicians.

Continuous focus on innovation, driving technological advancements and new trends in the audio industry and democratising music.



## Global customer base

Strong relationships with established customer base and distribution network covering approximately 240 territories worldwide.

Persistent demand for high-quality audio products in music and sound production, recording, and entertainment industries.

## Impressive financial performance since IPO in December 2014

Track record of building revenues, strong cash generation and maintaining healthy gross margins, with a progressive dividend policy and successful acquisition strategy that has led to attractive total returns for shareholders.

## At a Glance

# We are not your average audio technology group. We're a *passionate* bunch united by a single objective: **to smash through barriers** and **unleash boundless creativity** in the **world of sound**. From bedroom beat making to uniting festival crowds, we **support our customers at every step of their music journeys**.

**Purpose:**
Enrich lives through music. This is our why. We believe in music as a force for good in this world. When we're feeling low, it lifts us. When we're consumed with mixed emotions, it channels them. When we're after that winning edge, it drives us. Most importantly, music brings us together in a world that seems so often to be drifting apart. We believe that the more people we can inspire to make music, and the more we can bring people together to enjoy music, the better the world will be.

**Mission:**
To remove barriers to creativity. We believe technology should help, not hinder, the creative process. Every minute spent on unnecessary steps is a minute stolen from creativity. Technology can play an important role in breaking down other barriers; geographical, social and economic. Together we aim to remove them, one by one.

## Embedding responsible business

Sustainability considerations are built in from the first stages of the design process across all our brands.

Read more
Page 42

The ADAM Audio A Series uses 61% Post-Consumer Recycled Aluminium, and Recycled Plastic in its design.

## Our strategic priorities

Read more
Page 20

### Creating a great place to work

### Growing the core

### Expanding into new markets

### Focusing on lifetime value for our customers

## Financial highlights

**Revenue**
**£178.5m**
FY22: £183.7m
Growth vs FY22: (2.9)%

**Net debt**[1]
**£1.3m**
FY22: £0.3m
Change vs FY22: £(1.0)m

**Gross margin**
**47.5%**
FY22: 45.3%
Change vs FY22: +2.2%pts

**Total dividend per share**
**6.6p**
FY22: 6.0p
Growth vs FY22: 10.0%

**EBITDA**[2]
**£36.9m**
FY22: £40.8m
Growth vs FY22: (9.6)%

**Adjusted**[3] **EBITDA**[2]
**£38.6m**
FY22: £41.7m
Growth vs FY22: (7.4)%

**Operating profit**
**£24.3m**
FY22: £28.7m
Growth vs FY22: (15.3)%

**Adjusted**[3] **operating profit**
**£30.4m**
FY22: £34.7m
Growth vs FY22: (12.4)%

**Basic earnings per share**
**30.4p**
FY22: 42.5p
Growth vs FY22: (28.5)%

**Adjusted**[3] **diluted earnings per share**
**38.4p**
FY22: 49.9p
Growth vs FY22: (23.0)%

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[1] Net debt defined as cash and cash equivalents, overdrafts and amounts drawn against the revolving credit facility ('RCF') including the costs of arranging the RCF (see table reconciliation on page 102).

[2] Comprising earnings (operating profit) adjusted for interest, taxation, depreciation, amortisation and adjusting items (see table reconciliation on page 102).

[3] Adjusted for amortisation of acquired intangible assets and other adjusting items (see notes 15 and 20).

## Our Products

# How we *enrich* **lives** through *music*

# CONTENT *CREATION*

We believe in supporting our customers throughout their music-making journey, by removing barriers to creativity and delivering everything they need to make music. We provide solutions from studio to stage.

### Audio interfaces

Audio interfaces convert analogue signals from microphones and instruments into a digital format, allowing customers to make music or podcasts on their computers. Focusrite and Focusrite Pro audio interfaces ensure studio-quality sound is available to home studio creators and professionals alike.

### Synthesizers

Synthesizers are electronic musical instruments that produce a wide variety of sounds for performance and recording. Novation, Sequential and Oberheim offer synthesizers to suit all tastes, levels of experience and budgets.

### Audio software

Audio software allows users to easily create, process, edit and perform their music. Sonnox, Ampify, Novation and Focusrite create software that complements our hardware and enables our customers to quickly achieve their goals.

### Keyboard and pad controllers

Keyboard and pad controllers connect to and control other devices that make sound, such as computers and synthesizers. At Novation, we provide intuitive controllers that remove technical hurdles for our customers.

### Grooveboxes

Grooveboxes are self-contained instruments for making electronic music – and the Novation range of grooveboxes are fun, flexible and customisable.

### Monitor speakers

Monitor speakers allow you to hear a truly accurate representation of your recordings. ADAM Audio offers a range of monitors which deliver transparent, high-definition audio.

### Focusrite

**Audio interfaces that make professional audio accessible to all.**
Focusrite audio interfaces provide exceptional sound quality, user-friendly interfaces and innovative features; our products have the best technical specifications and feature sets compared with any other interface at a similar price point. Our products are backed by award-winning, 24/7 customer support and personalised onboarding to help customers achieve their goals quickly, something that is unmatched by our competition. It is the combination of this, along with our iconic brand heritage, that makes us the standout market leader.

### Focusrite PRO

**Audio solutions for commercial facilities.**
Used in commercial music, post-production and broadcast facilities across the world, Focusrite Pro solutions uniquely combine pristine sound quality, rock-solid reliability, and versatile connectivity, providing future-proofed systems and workflows. These audio interfaces have higher technical specifications, more comprehensive feature sets, higher channel counts and increased connectivity options compared with ranges under the Focusrite brand. The Focusrite brand heritage sets us apart in this world. We started from a request by Sir George Martin, of Beatles fame, to design the highest-quality audio equipment available, and this ethos holds true today.

### novation

**Intuitive hardware for creating and performing electronic music.**
Novation creates innovative synthesizers, intuitive grooveboxes and MIDI controllers with deep integration for all major music-making software, providing a seamless and expressive music production experience.

### AMPIFY

**Software and content for music creation.**
Ampify apps and software allow anyone to start making and performing music by combining user-friendly interfaces with creative features and hundreds of thousands of royalty-free samples and sounds.

### ADAM AUDIO

**Precision German-engineered studio monitor speakers.**
ADAM Audio monitors excel in reproducing high frequencies through a distinctive and unique ribbon tweeter, while also maintaining precise bass; offering superior clarity and presence compared with the competition.

### SEQUENTIAL

**Legendary, high-end synthesizers.**
Trusted by professionals, Sequential synthesizers offer renowned, rich sound quality, innovative features, and a strong legacy of iconic instruments, such as the Prophet series, that have shaped both the history of electronic music and synthesizer development over the years.

### Oberheim

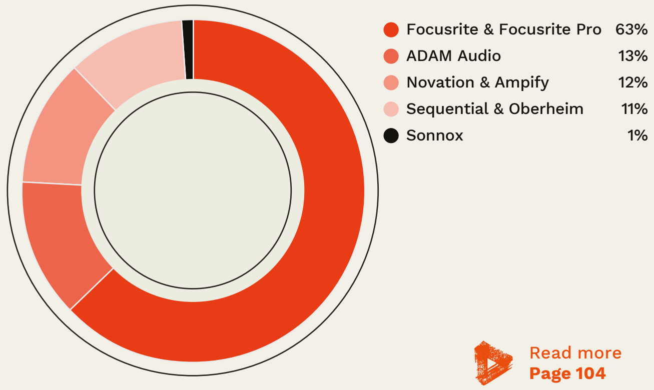
**No-compromise analogue synthesizers.**
The unique Oberheim sound has shaped decades of music and featured on countless iconic film scores and electronic music tracks. Having created the first polyphonic synthesizer and the SEM multimode filter, Oberheim has unparalleled historical significance and vintage appeal.

### Sonnox

**Innovative audio processing software.**
Customers choose Sonnox for its unparalleled audio precision, innovation, and user-centric interfaces. A brand trusted by professionals, it offers products that have longevity and address specific-customer challenges rather than simply creating emulations of hardware.

**Group revenue %**
CONTENT CREATION 77%

**Content Creation revenue split (%)**



Read more Page 104

# How we *enrich* lives through *music*

## AUDIO *REPRODUCTION*

Professional sound reproduction systems deliver music and other content to audiences, from coffee shops to concert stadia – and Martin Audio, Optimal Audio and Linea Research have solutions that ensure their signature sound will reach every listener.

## At all the world's *epic performances*

Deployment of Martin Audio and Linea Research solutions across many of the world's biggest festivals and tours.

STAGECOACH

GLASTONBURY

COACHELLA

### Point source speakers
(<15m of throw)

Point source loudspeakers can be either a single speaker, or multiple speakers placed apart from one another, broadcasting a full range of sound from a single point. They project sound comfortably up to 15m and come in either a portable format suitable for small gigs or permanently installed into venues such as bars and restaurants.

### Constant curvature arrays
(15–30m of throw)

Constant curvature arrays are identical loudspeaker elements connected directly to one another. Constant curvature loudspeakers will be used in both portable format for small concerts and gatherings as well as permanently installed into venues like houses of worship.

### Line arrays
(>30m of throw)

Line arrays are identical loudspeaker elements connected in a line but with a splay angle between each loudspeaker cabinet. These loudspeakers combine in such a way to project sound further and more evenly than is possible with a traditional point source loudspeaker or constant curvature array. Once again, line arrays can be portable and used for major concerts and festivals or can be permanently installed into stadiums or large auditoriums.

### Digital Signal Processors

Digital Signal Processors ('DSP') take digital audio signals and mathematically manipulate them to optimise sound through the signal chain, delivering a better listening experience for the audience.

### Amplifiers

Amplifiers combine with a loudspeaker to increase the volume of the sound produced by source material or musical instruments.

**MARTIN AUDIO**

**Live and installed sound.**
Martin Audio designs and manufactures high-quality sounds systems for concerts, festivals and installation into venues of all sizes, delivering dynamic sound to ensure that every member of the audience has the best possible listening experience. Martin Audio is renowned for its engineering pedigree and innovation to deliver rich, full frequency and distortion free sound at a competitive price, offering both excellent performance and value for money.

**Optimal Audi**

**Commercial audio.**
Optimal Audio designs sound systems – comprising speakers, amplifiers and controllers – for small- to medium-sized multi-zoned commercial venues that rely on sound quality and ease of use. Optimal Audio's approach to delivering an eco-system of products that works seamlessly together, thanks to highly flexible and intuitive control software, makes installation and usability a simple and enjoyable experience.

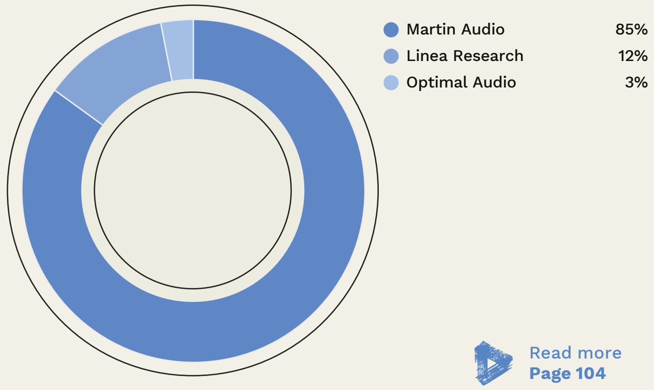
**LINEA RESEARCH**

**High-end amplifiers and Digital Signal Processors.**
Linea Research creates a range of amplifiers for use in professional live sound systems. The range of solutions involves innovative DSP to shape, control and direct sound, delivering peak audio audiences. Linea Research stands out for its unmatched sound quality, renowned power handling and unrivalled user experience.

**Group revenue %**

AUDIO REPRODUCTION **23%**

**Audio Reproduction revenue split (%)**



| | |
|---|---|
| ● Martin Audio | 85% |
| ● Linea Research | 12% |
| ● Optimal Audio | 3% |

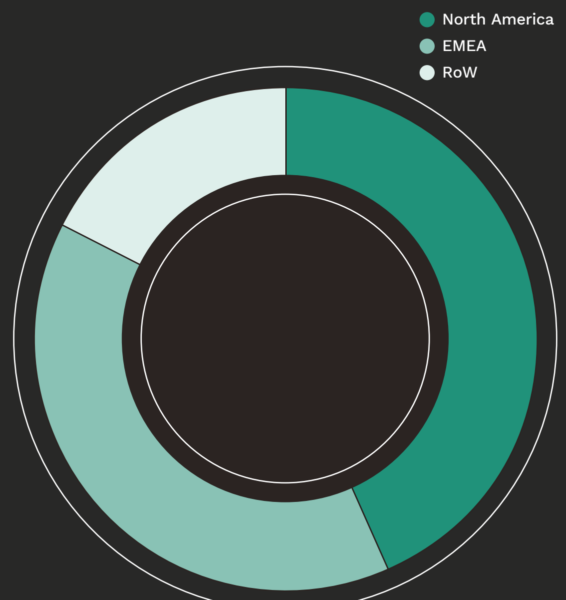
Read more
**Page 104**

## Where We Operate

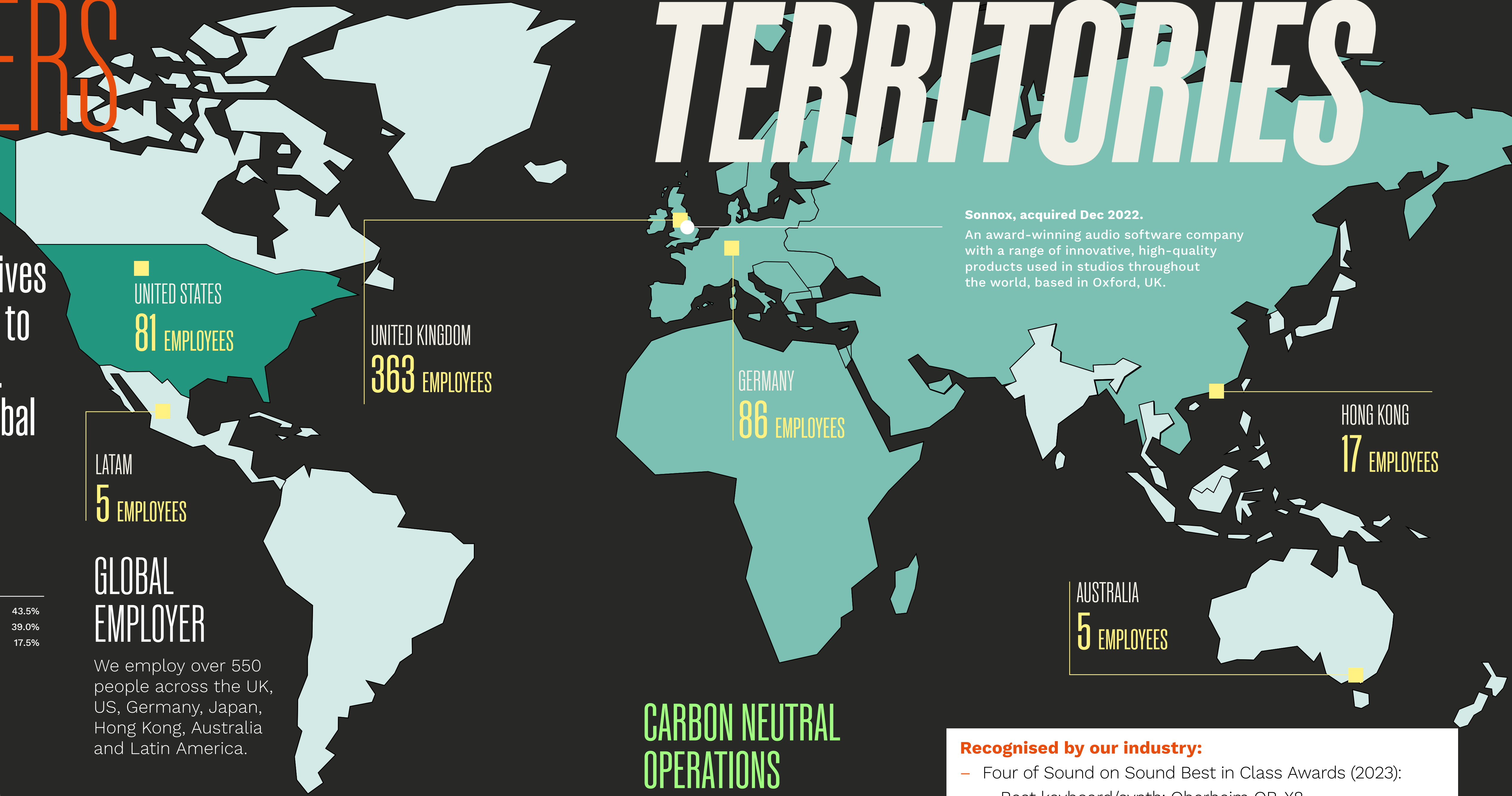
# SEVEN MILLION CUSTOMERS

Wherever there are creatives in the world, we are there to remove barriers for them. We have an unmatched global footprint and connection with local communities.

**Diversified business – Revenue by geography %**



# ACROSS 240+ TERRITORIES



UNITED STATES
81 EMPLOYEES

UNITED KINGDOM
363 EMPLOYEES

LATAM
5 EMPLOYEES

GERMANY
86 EMPLOYEES

HONG KONG
17 EMPLOYEES

AUSTRALIA
5 EMPLOYEES

**Sonnox, acquired Dec 2022.**
An award-winning audio software company with a range of innovative, high-quality products used in studios throughout the world, based in Oxford, UK.

## GLOBAL EMPLOYER

We employ over 550 people across the UK, US, Germany, Japan, Hong Kong, Australia and Latin America.

Sold ***1.3 million*** physical products in FY23, and saw over ***1.5 million*** software downloads.

## CARBON NEUTRAL OPERATIONS

Offices are a very small portion of our total greenhouse gas ('GHG') emissions, but where we have most influence. We only purchase renewable energy in our offices where available now, and since 2022 have used verified carbon offsets to achieve a Carbon Neutral status.

**Recognised by our industry:**

- Four of Sound on Sound Best in Class Awards (2023):
  - Best keyboard/synth: Oberheim OB-X8
  - Best microphone preamp: Focusrite Clarett+ OctoPre
  - Best studio monitor: ADAM Audio A Series
  - Best performance controller: Novation Launchkey 88
- Optimal Audio wins best manufacture at the AV Awards (2023)
- Music Retailer 'Recording Equipment Line of the Year' (2022)

# Acquisition and Innovation Timeline

The Focusrite brand was established in 1985 by Rupert Neve, with the creation of a console at the request of George Martin, legendary Beatles producer, to serve high-end professional recording studios. Only eight of these advanced analogue recording consoles were ever made, and the few still in use today remain in high demand.

## 1989

Ownership changed hands and came under the control of Phil Dudderidge, an industry veteran, and began to widen the range of products available that appealed to professional, commercial, and hobbyist musicians.

## 2004

Focusrite Audio Engineering Limited acquired the **Novation Electronic Music Systems Limited business**, a market-leading British producer of keyboards, synthesizers and controllers, with products used by musicians globally.

The addition of the Novation brand further expanded the range of products and customers of Focusrite into the electronic dance music segment of the market.

novation

## 2009

Focusrite continued to develop its range of innovative products with the introduction of Launchpad, a midi controller, spawning a range of YouTube videos generating billions of views.

## 2012

The world was introduced to Generation 1 of the Scarlett 2i2. A revolution in the at-home recording studio movement, this allowed more users than ever before to access the tools to create professional music at home.

## 2014

Ampify expands the Group's electronic music offerings into cross-platform software solutions which allow anyone to experiment with and create high-quality soundtracks, and are bundled with Novation and Focusrite hardware.

## 2016

### JUNE

Scarlett Gen 2 launched with improved technical specifications and a sleek new design, further embedding Focusrite's position as market leader.

## 2019

### JULY

Launch of Scarlett Gen 3. The third iteration of the world's leading USB Audio Interface with extended gain and dynamic range, and the 'Air' ISA transformer-based preamp emulation from our more expensive Clarett and Red series.

Saw the acquisition of **ADAM Audio GmbH**, a precision innovator in the field of professional monitoring and loudspeaker technology based in Berlin.

ADAM AUDIO

### DECEMBER

**Martin Audio Limited**, the British, Buckinghamshire-based designer of high-performance loudspeaker systems for the touring and installation markets, joined the Group, expanding the Group's market to cover live and installed sound reproduction systems.

MARTIN AUDIO

## 2021

### APRIL

Focusrite launched Optimal Audio, an initiative from Martin Audio, which aims to make the world of commercial audio installation less complex. Optimal Audio manufactures high-quality loudspeakers, amplifiers, and controllers for commercial audio applications.

Focusrite plc acquired **Sequential**, the respected American synthesizer manufacturer led by legendary electronic instrument designer and Grammy winner Dave Smith.

SEQUENTIAL

## 2022

### MARCH

Saw the acquisition of **Linea Research** – manufacturer of high-power amplifiers, Digital Signal Processors, audio networking and software products and a key supplier to Martin Audio. Headquartered in Letchworth Garden City, UK, Linea Research was formed in 2003 by a team of experienced professional audio specialists, which designs, develops, manufactures and markets innovative professional audio equipment globally.

### APRIL

Focusrite acquired the rights to the **Oberheim** brand, the 21st century return of the legendary synthesizer manufacturer and the creator of the world's first commercially available poly synthesizer.

Oberheim

### DECEMBER

Focusrite acquired **Sonnox** – creator of innovative, high-quality, award-winning processing software. Based in Oxford, UK, the company's wide range of audio applications includes mixing for music production, live sound, broadcast, TV and film, and even scientific and forensics projects. The acquisition brings the total number of Focusrite Group brands to 11.

Sonnox

## 2023

### AUGUST

Launch of Scarlett Gen 4: a completely re-engineered range, packed with features that promise to deliver unprecedented ease of use and delivering professional studio level technical specifications.

# OUR ACQUISITIONS DELIVER

## LINEA RESEARCH DOUBLES PRODUCTION SINCE JOINING THE GROUP

A long-time supplier and partner to Martin Audio, Linea Research joined the group in March 2022 and has since gone on to double its production. With investment into the supply chain and production, Linea Research was able to consistently improve output levels through the period, seeing demand rise not just from Martin Audio but also for its own brand of amplifiers, including the world-renowned M Series, together with Digital Signal Processors and audio networking products. Being part of the Focusrite Group has allowed Linea Research to commit to larger forward orders with suppliers, increased capability to react to component shortages with spot buys, allowed further investment in production staff and brought with it the deployment of an enhanced ERP solution which has driven efficiencies within production processes. Software was also significantly bolstered by the introduction of System Engineer 8, the company's new control and telemetry software platform. In addition, its world-class development team is primed to strengthen the product roadmap for the Audio Reproduction division, with exciting developments across the Martin Audio and Linea Research ranges.

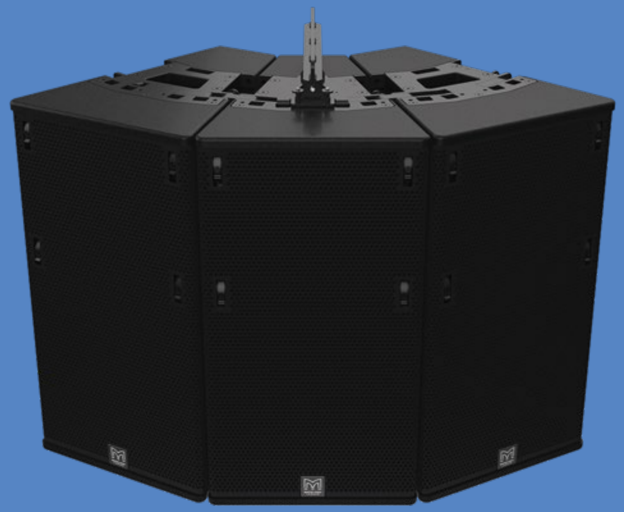
LINEA RESEARCH

**Recognised for innovation:**

- Kings award for product innovation 2023

## RECORD SUCCESS FOR MARTIN AUDIO

TORUS



It was another record year for Martin Audio as it saw sales and marketing drive significantly increased revenue, boosted further by the announcement of 15 new products to the portfolio. Indeed, with the extension to its popular TORUS series for throw distances of 15–30m, alongside the introduction of FlexPoint, a premium, high-performance series of coaxial point source speakers for throws of up to 15m, it is now well accepted that Martin Audio has its strongest ever line-up of products in its 50+-year history. As a result, this year brought multiple six figure investments from live sound rental partners, and widespread usage across summer festivals; five of the top six Glastonbury stages being powered by Martin Audio, for example. With an increased focus on software moving forward, which will be the final part of the total proposition approach customers are coming to expect, alongside uplifts in production capability, Martin Audio is well positioned to further increase sales across the portfolio.

# GROWTH

## Market Overview

# CONTENT CREATION

**Market size**

**£1,750–2,000m**

We know that technology can be a huge barrier to the creative process; whether just starting out or taking productions to the next level, technology can get in the way of creativity. It's our mission to smash through these barriers.

Our commitment to high-quality audio performance, innovative technology, user-friendly design, and seamless software integration is what sets us apart. We enable anyone to create, keep themselves in a state of flow, and realise their creative vision, fast.

With a diverse product range, reliable build quality, and market-leading brands, Focusrite Group meets the needs of musicians, content creators, and audio professionals worldwide; from hobbyists recording in their bedroom, through to iconic artists writing their next platinum selling album in the biggest commercial studios.

| Casual Content Creators | Serious Music Producers | Audio Professionals & Facilities |
|---|---|---|
| **£600–700m** | **£600–700m** | **£550–600m** |
| Audio interfaces, audio software, keyboard and pad controllers, monitor speakers. | Audio interfaces, audio software, keyboard and pad controllers, monitor speakers, synthesizers, grooveboxes. | Audio interfaces, audio software, keyboard and pad controllers, monitor speakers, synthesizers, grooveboxes. |
| Focusrite<br>AMPIFY<br>Sonnox<br>novation<br>ADAM AUDIO | Focusrite<br>Sonnox<br>novation<br>ADAM AUDIO<br>Oberheim<br>SEQUENTIAL | Focusrite<br>Focusrite PRO<br>Sonnox<br>novation<br>ADAM AUDIO<br>Oberheim<br>SEQUENTIAL |
| Considering themselves as artists or music makers, Casual Content Creators are hobbyists who crave fast results, getting that latest song idea out of their head and recorded as quickly as possible, often to be shared with friends. They feel a sense of achievement when completing a track, but all too often this isn't achieved–instead ending up with sketches and ideas that never get refined and polished. Hungry to get better, they need support creating music they are happy with. New music-making tools excite them, particularly if they help achieve professional sound, or help them finish tracks. | Serious Music Producers are always creating and are committed to a weekly, if not daily, music-making routine with self-imposed deadlines. They feel a sense of achievement when they complete a release-ready track. Actively networking within groups of like-minded people, they're constantly honing their skills, and adding to their studio. Any new purchases must contribute to the refinement of their music production process or provide fresh inspiration. While not the way in which they will earn a living, music production is often a 'side hustle' for these customers. | Music and content production is their passion, and their business. They accept the deadlines and pressures that come with the job and get a sense of achievement when their hard work receives critical acclaim and financial success. While technology requirements for each professional and commercial facility are unique, gear purchases must have a positive impact on workflow, provide rock-solid reliability, future-proof their studio and create strong return on investment. Driven to remain competitive, they're always looking for ways to grow their business; immersive audio is a good example that has spurred investment – see page 23 for more information. |

Source: Market information from US Music trades information, competitor financial statements and management estimates

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# AUDIO REPRODUCTION

**Market size**

**£3,000–3,500m**

| Intimate Gigs and Hospitality | Auditoria and Theatres | Arenas and Festivals |
|---|---|---|
| **£1,100–1,300m** | **£800–900m** | **£1,100–1,300m** |
| Point source portable and on-wall speakers. | Micro or mini line arrays as well as constant curvature arrays. | Large-scale line arrays. |
| Optimal Audio<br>LINEA RESEARCH | Optimal Audio<br>LINEA RESEARCH | LINEA RESEARCH |
| Less than 15m of throw: intimate gigs, corporate events, permanent installations into smaller nightclubs, houses of worship and hospitality venues. | 15–30m of throw: medium-sized auditoria, theatres, houses of worship and nightclubs. | Throw of 30m or more: concerts and festivals of up to 100,000 people, superclubs, megachurches and large-scaled theatres or arenas. |

We recognise the profound impact that audio reproduction technology has on transforming live performances into unforgettable moments. Behind every pulsating beat and soaring melody lies the craftsmanship of our sound reinforcement systems, empowering musicians to connect intimately with their audiences.

The vast majority of music creators want an audience to hear their music. Therefore, there is an enormous market for both installed sound and live sound equipment used for the reproduction of music. From the challenges of massive outdoor stages to the intricacies of immersive soundscapes, we celebrate the harmonious collaboration that brings artists' visions to life and elevates festival-goers' experiences.

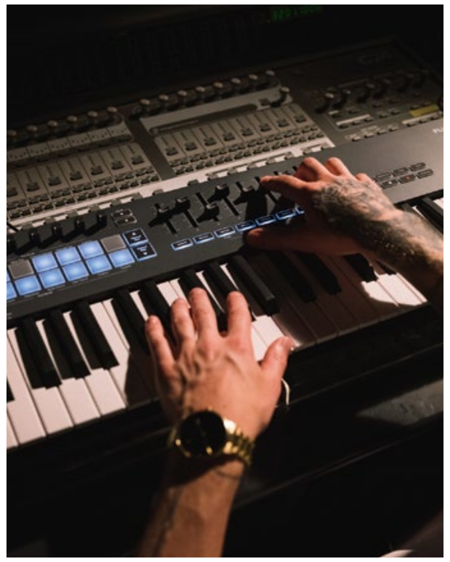
Source: Market information from US Music trades information, competitor financial statements and management estimates

# Market Trends

## WE NEVER MISS A BEAT.

The audio and technology markets are fast moving. Those who don't keep up will fall behind. We're always listening to the market and having conversations with customers, ensuring we know what is happening and that we don't get blinkered by our own view of the world. We've built our business to be agile, allowing us to react to what we're seeing and hearing, and to do so in a relevant and timely way.

## GROWTH IN THE MUSIC INDUSTRY



### Overview

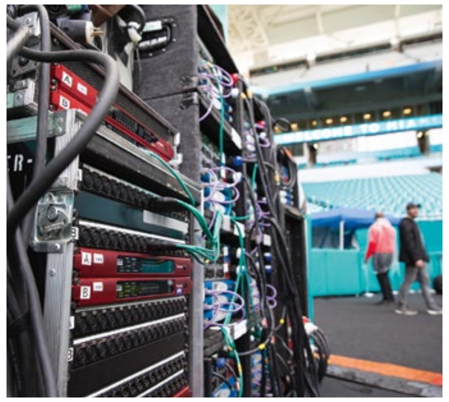
According to the Recording Industry Association of America, US recorded music revenues were up 8.3% year over year to $5.3 billion. This growth has created an increased demand for audio technology that can handle diverse recording and performance needs.

### Focusrite response

As a group of market-leading brands, we are uniquely positioned to serve this growth through the provision of complete solutions for music creation and performance; from studio to stage. For creators, we provide innovative and easy to use tools that enable anyone to enjoy making music. For audio professionals, we create future-proofed and improved workflows that give the freedom to get the job done.

### Link to principal risk:

- Business strategy
- Product innovation
- Product supply



## RISE OF THE EXPERIENCE

### Overview

Allied Market Research projects that the experience economy market will reach $12.8 trillion by 2028, growing at a CAGR of 12.5%. In the post-pandemic world, attendance at festivals and live concerts has skyrocketed as ticket buyers seek out an 'experience' rather than a commodity. Statista Market Insights suggests online ticket sales for music-related events alone will reach $33.8 billion this year, up 49% from 2019, the last pre-pandemic year. The reaction of festivals and events has been to provide more content, and more varied content, to their audiences. There have been a plethora major artists going on tour, with many eclipsing 'billion dollar' tours for the first time. There is also a more diverse pipeline of artists breaking from all corners of the world, with tours going to more markets–particularly in Latin America and Asia. All of this has increased the need for professional sound reinforcement systems.

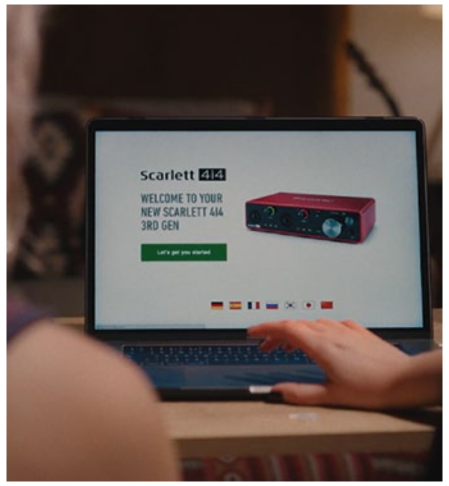
### Focusrite response

This period of increased demand has been coupled with an industry-wide shortage of certain components. Staying ahead of the competition, Martin Audio has used the scale of the Group to ensure that we have a reliable and predictable production schedule, and that we use our global footprint to serve all markets, including the smaller emerging territories. This opens new opportunities where we can supply ahead of our competition. New product introduction also continues to ensure that Martin Audio caters to more use cases than ever before, offering our most complete line-up in our 50+-year history.

### Link to principal risk:

- Product innovation
- Product supply
- Business strategy

## EASE OF USE AND ACCESSIBILITY



### Overview

There are more creators in the market than ever and, increasingly, they don't want to invest hours understanding how to use technology, they simply want results. There is an opportunity for brands that offer solutions for creators to realise their creative vision in as frictionless a way as possible. There is also growing awareness of accessibility needs in music technology, leading to improvements in this area by many companies.

### Focusrite response

We are champions for ease of use – in all areas. Our Easy Start tools provide personalised onboarding journeys to get customers achieving their goals more quickly, while Optimal Audio systems provide plug and play setup, allowing anyone to get the best from the gear, quickly. Addressing accessibility needs, our designers and developers work with disabled musicians to understand their lived experiences, and make sure our products meet their needs. Recent product launches offer deep screen reader support and bi-directional control between software and hardware for maximum flexibility. Recent surveys show that our user base value our efforts here, with 7% of respondents disclosing that they have a disability that affects their music making.

### Link to principal risk:

- Product Innovation
- Product supply
- People

## SUSTAINABLE AND ECO-FRIENDLY PRODUCTS

### Overview

Deloitte's research 'The Sustainable Consumer 2023' identified that 40% of consumers are actively choosing brands that have environmentally sustainable business practices/values, and the same is true of content creators; showing increasing interest in eco-friendly and sustainable audio equipment. Manufacturers that incorporate eco-conscious practices and materials into their products will find an advantage in this market.

### Focusrite response

Last year we identified Increase Consumer and Investor Climate Consciousness and movement towards Circular Economy Principles as TCFD climate-related opportunities for the Group and have been publicly sharing our progress in using more recycled materials in our product; recent ADAM Audio A Series, Focusrite Vocaster and Scarlett 4th generation are examples in action. Initiatives such as trade-in schemes, encouraging product recycling, and planting trees to replace the wood we use in manufacturing all show commitment to our planet.

### Link to principal risk:

- Product innovation
- Climate change
- Product supply

## EMERGING TECHNOLOGIES

### Overview

Immersive audio and Artificial Intelligence are key tech trends. Companies like Apple, Dolby, and Universal Music Group all champion immersive audio. Apple Music state that 80% of its user base enjoy immersive audio on its platform (+1,000% year on year), while CE Pro's 2023 Tech Trends to Watch report predicts a 15% increase in consumers equipping their homes with immersive audio tech. This consumption drives a need for pro audio solutions to support the creation and reproduction of content in these formats.

Market.us states that the global Generative AI in Music Market was worth $229 million in 2022–with the mastering music segment holding 30% share – and estimates it will grow to $2.6 billion by 2032. Ditto Music found that many artists are already using AI tools and that 66% would use AI for mixing and mastering in the future. There is demand for AI-based tools that enhance workflow and open new creative possibilities. Care will need to be taken to ensure that tools are not seen to replace human creativity.

### Focusrite response

We provide solutions to support the needs of all immersive audio formats; high-channel count, rock-solid and highly configurable Focusrite audio interfacing and control solutions, ADAM Audio monitor speakers for production environments, or Martin Audio systems for live experiences. Read more about immersive audio on page 23.

We use AI within our mixing and mastering software to improve the function and usability of the tool, not to replace human creativity. Our aim is to ensure customers can achieve their goals quickly while having full control over their output. They also act as invaluable learning tools for those new to the world of music production.

### Link to principal risk:

- Product innovation
- Product supply
- People

# Business Model

## Inputs: what sets us apart

### Product design and innovation

Each brand is supported by dedicated design and engineering professionals, with on site teams in the US, the UK, Germany and China. They leverage insights from our global customer care teams to create market-leading intuitive designs anticipating customer needs.

### Brand reputation and intellectual property

Focusrite has built a strong brand reputation over the years, with the goal of delivering the market-leading brand in all our market sectors. Our brands hold patents, trademarks, and copyrights for their proprietary technology, enabling us to protect our reputation and designs.

### Efficient and scalable manufacturing

The Group has long-term strategic relationships with a few key contract manufacturers in China, Malaysia and the US for high-volume products. In addition, ADAM Audio, Martin Audio and Linea Research are also supported by on site manufacturing in the UK and Germany.

### Talent and expertise

Across the Group, our teams are passionate about our products and the experience we can deliver to customers. Our research teams with decades of experience in the industry along with undergraduate placements, bringing their experience of innovation and current use of our products, all bring a unique perspective to help us excel.

### World-class customer service

Our Content Creation brands offer 24/7 customer care throughout the year, with teams based in the UK, Germany, the US and Asia. Our out of box setup experience sets us apart from other brands in an increasingly complex world of music technology.

### Financial strength

We have a strong balance sheet, with low gearing and a track record of cash generation. To further support our ambitions for growth, we have bank facilities are in place for the next four years, allowing us to focus on investment in current brands and future acquisitions.

## Routes to market

### CONTENT *CREATION*

Our Content Creation division partners with distributors and resellers across 240 territories supported by in-house commercial, technical and marketing professionals, driving mass awareness through social and other media channels.

#### THROUGH DISTRIBUTION:

Partnerships with key distributors in most territories, who then manage sales in the channel to smaller resellers.

FOCUSRITE → DISTRIBUTION → RESELLER → END USER

#### DIRECT TO RESELLERS:

In targeted markets, we act as our own distributor, selling direct to reseller, providing logistics as well as technical and marketing support. This is currently in place across the UK, Germany and related European markets as well as Australia.

FOCUSRITE → RESELLER → END USER

#### DIRECT TO CONSUMER:

Our brands have eCommerce sites supporting global shipments direct to consumer.

FOCUSRITE → END USER

### AUDIO *REPRODUCTION*

Our Audio Reproduction teams also partner with distributors across the world, with sales in 240 territories. A direct sales team supports the sales process to rental and installation companies, where a complex design for a cruise ship or large place of worship can require technical support from our dedicated sales teams in all regions.

This results in a pipeline of orders phased for delivery up to the next 18 months.

FOCUSRITE → DISTRIBUTION → INSTALLER/ RENTAL CO. → END USER

← DIRECT SALES SUPPORT →

## Outputs

### Customers

Access to cutting edge professional grade technology that enables them to enhance their creative process, or deliver outstanding sound reproduction to their customers.

**70**

**Net Promoter Score (‘NPS’)**

### Employees

A great place to work, where people feel they are welcome, safe and positively represented with opportunities to develop their skills and career.

**21**

**Employee Net Promoter Score (‘eNPS’)**

### Shareholders

Value is generated through our strong financial delivery and growth opportunities in a vibrant market sector and track record of progressive dividend growth.

**17.6%**

**CAGR dividend growth (FY15 to FY23)**

### Suppliers and distribution partners

We are a reliable and ethical partner that is easy to do business with. Suppliers and distributors benefit from collaborative partnerships which can lead to consistent business and revenue streams for them.

### AWARDS

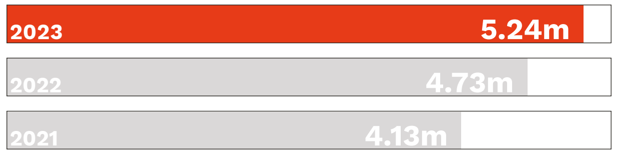
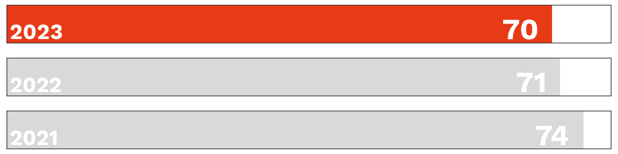
- AIM Awards Company of the Year 2021
- The Queen’s Awards for Enterprise in Innovation: 2008, 2018, 2021
- The King’s Awards for Enterprise in Innovation: 2023
- The Queen’s Awards for Enterprise in International Trade: 2012, 2016, 2022

**OUR PURPOSE:**
To **remove** barriers to creativity, allowing ***anyone to create*** great-sounding audio.

**OUR PLANET:** Incorporating **sustainable practices** in business operations **positively impacts the environment** promoting eco-friendly manufacturing and **reducing** the Group’s carbon footprint.

# Our Strategic Framework

The foundation of our growth strategy, while constantly evolving, remains fundamentally unchanged: creating a great place to work, continuing investment to grow our core products, expanding into new market opportunities and focusing on lifetime value for our customers continues to be a winning formula for the Group.

| Growth Drivers | Our Strategy | Activities in FY23 | KPIs | Priorities for FY24 |
|---|---|---|---|---|
| Creating a great place to work | Creating a listening and inclusive organisation to allow our people to develop and succeed. | During this year, both our Focusrite and Martin Audio brands saw investments in new office spaces as we encouraged a programme of return to work following the normalisation after COVID-19.<br>Focusrite has moved to brand new offices in High Wycombe.<br>Martin Audio has renewed the lease and refurbished the office space, creating new areas for research and development ('R&D') and customer demos.<br>Against a background of high-cost inflation and a difficult labour market, we have seen our eNPS score decline slightly, and we renew our commitment to our engagement and diversity plans as we begin FY24. | **eNPS**<br>21<br> | Update our global Diversity and Inclusion programme, with a focus on employee-led initiatives and programmes.<br>Ongoing regular Global Engagement surveys, driving local departmental engagement plans.<br>Continued support of return to work programmes across all our brands, allowing for greater collaboration across departments. |
| Growing the core | Our ongoing investment in R&D ensures we have a robust product pipeline, driving growth in existing markets and supporting further market penetration for our newer brands. | Launch of 32 new products across our brands.<br>Flagship Scarlett Audio Interface now on 4th generation, after 11+ years of being market leader.<br>Broadest range of Audio Reproduction products available in Martin Audio's history, covering all aspects of the market.<br>23 product updates, ensuring our products remain compatible with multiple operating systems.<br>Launch of Voca, a major new plugin from our newest acquisition, Sonnox. | **Number of registered core users**<br>5.24m<br> | A focus on collaboration across brands where appropriate to drive innovation, bringing together expertise from Sonnox and Focusrite, and Novation and Sequential to design product roadmaps.<br>Build out of the Oberheim brand with new products and modules.<br>Further expansion and development of the Audio Reproduction range, leveraging from Linea Research's technology. |
| Expanding into new markets | The Group views expansion into new markets as having two key elements:<br>– firstly, through simplifying our go to market approach to bring us closer to customers and invest in local people and resources in the market; and<br>– secondly, we look to expand into new markets both organically and through acquisition. | The acquisition of Sonnox, in December 2022, strengthened the Group's software offering to customers. Sonnox is a leading software developer of audio plug-ins and tools used in every aspect of the audio industry.<br>In July 2023, a new eCommerce site was launched for the Focusrite Content Creation brands, moving us to a more robust, scaleable infrastructure and making it easier for customers to buy directly from the brands.<br>Restructuring of the Content Creation sales teams into single regional teams representing all brands across the Americas, EMEA, and APAC. Delivering synergies and scale across our smaller brands. | **Total addressable market**<br>£5.5bn<br> | Now recognised as a friendly home for high-quality professional audio brands, we have an active pipeline of potential future acquisitions.<br>We constantly review our approach in key markets to ensure we are working with the best partners and are leveraging from our own infrastructure where relevant.<br>Source of Market Information:<br>US Music Trades information and management estimates. |
| Focusing on lifetime value for our customers | Lifetime value is delivered through our world-class technical support, now with 24/7 follow-the-sun coverage and a user setup experience designed to make our products supremely easy to use. | This year we overhauled our Easy Start onboarding experience to deliver a more personalised onboarding experience.<br>Further development work in Optimal Audio to improve ease of use for installed sound across multiple spaces and channels.<br>Consolidated support systems to enable seamless cross-brand collaboration for Content Creation. | **Net Promoter Score**<br>70<br> | Leveraging from the skillset and experience of Focusrite to bring our understanding of the customer journey across our other brands.<br>Further extending our support teams to provide global 24/7 support across all our Content Creation brands.<br>Further personalisation of customer journeys. |

# Chairman's Statement

**Phil Dudderidge**
Non-Executive Chairman and Founder

> **Focusrite plc is becoming recognised in our industry as a successful and friendly home for complementary branded businesses, with the successful integration of our ADAM Audio, Martin Audio, Linea Research, Sequential and Sonnox acquisitions.**

# REMOVING BARRIERS TO CREATIVITY

We have successfully cultivated a diverse portfolio of world-leading brands, each holding strong positions within their respective segments. This diversification bolsters our resilience against global and industry-specific headwinds.

Focusrite plc has undergone substantial growth since the pre-COVID-19 era, expanding our presence globally with 11 distinct brands operating in diverse yet complementary markets. Over the past year, we have seen tangible results stemming from our strategic diversification efforts, which have enhanced our resilience in the face of global and industry-wide challenges.

We take immense pride in the business we have become, accompanied by impressive financial achievements since our initial public offering in December 2014. Although facing a challenging time this year, our track record speaks for itself, with revenue growth, strong cash generation, robust gross margins, a progressive dividend policy, and a successful acquisition strategy that has delivered attractive total returns to our valued shareholders.

At the core of our operations lies a global market with underlying growth factors, which we estimate at £5.5 billion across all our divisions. The ongoing technological advancements have democratised content creation and catalysed growth across the world. In this landscape, we find ourselves at the forefront of innovation.

Throughout the past year, the Group has undergone substantial changes while maintaining a strong presence in various markets, both vertically and geographically. We continue to drive innovation, foster strong relationships with our established customer base, and maintain an expansive distribution network spanning approximately 240 territories worldwide.

Whilst we celebrate our growth achievements, we remain vigilant in acknowledging factors that have impacted our revenue performance. Notably, our Focusrite-branded Scarlett audio interface range experienced a decline in volume in a market that had previously surged in demand during the pandemic. However, we proudly retained our global market leadership in this category. In July, we unveiled the 4th generation of Scarlett interfaces, which has already garnered widespread acclaim, bolstering our confidence in this range's market share for the years ahead.

To enhance marketing and representation efficiency, the Group has restructured its distribution networks in Europe and the US, aligning the acquired brands with our original Focusrite and Novation brands.

In the wake of the COVID-19 pandemic, the Audio Reproduction market is witnessing a surge in demand for experiences, including live and installed sound. The businesses within our Audio Reproduction division, including Martin Audio, Linea Research and Optimal Audio are all experiencing healthy growth, compensating for anticipated short-term contractions in our Content Creation brands from the past year. ADAM Audio is also making good progress following operational challenges in FY22 predominantly as a result of market wide shortages.

In May 2023, the Group Headquarters and home of Focusrite and Novation brands relocated to a new, more modern location in High Wycombe, providing us with vastly improved working conditions and stability for the foreseeable future. Concurrently, we have refreshed our investor-facing materials, and I encourage investors to explore our new plc website at focusriteplc.com.

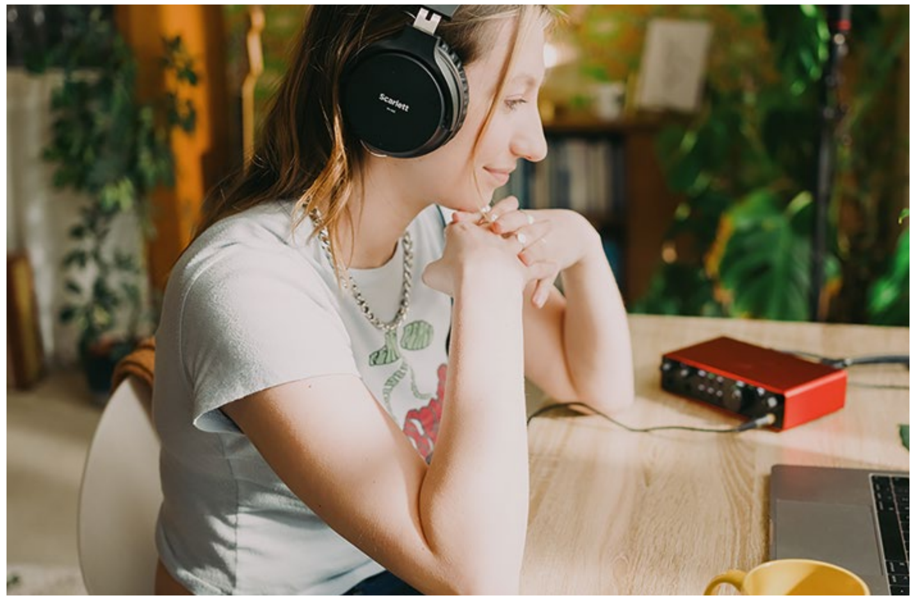
The Group is well positioned in all major markets, with enduring demand for high-quality audio products in music and sound production, recording, and entertainment industries across the globe. The catalysts for our business opportunities lie in music education and the global thirst for content and live entertainment, and we are always ready to embrace the challenges and prospects presented.

I extend my sincere gratitude to our investors for their continued confidence and support, to our dedicated employees for their hard work and innovation, and our distribution partners for their invaluable role in delivering our products to the masses.

We have successfully cultivated a diverse portfolio of world-leading brands, each holding strong positions within their respective segments. This diversification bolsters our resilience against global and industry-specific headwinds. There is much to look forward to and, with a proven track record of growing both organically and via selective M&A, we approach the future with much to be optimistic about.

**Phil Dudderidge**
Non-Executive Chairman and Founder

28 November 2023



## What is immersive audio?

Immersive audio is an emerging way of creating and playing back music and audio, which has the goal of enveloping the listener with sound from all directions, working in 360 degrees.

It can be used to provide a true-to-life listening experience; positioning the listener in the middle of a concert as if they were there, or fully drawing them into a movie scene by surrounding them with ambient noises. Equally, it can be used for more creative purposes, like bringing new life to old music or building mind-bending, Jean-Michel Jarre-esque sonic landscapes.

Immersive technology brings a new level of flexibility for listeners. Traditional surround sound is a 'channel-based' system, with 5.1 being the most common format, meaning the listener needs a very specific setup to enjoy this format. Immersive audio is an 'object-based' system which can place each individual sound source (a guitar, a voice, etc) anywhere in the 360-degree sound field. The positions of these are then encoded into the file format that can be understood by any compatible playback system. The advantage of this is that it doesn't matter what system is being used for playback – a full 14-channel immersive audio studio setup, a home entertainment soundbar or a pair of headphones – the listener will hear the sound source in the right place and have a similar experience.

This format will only continue to grow as it is being engaged with by consumers. It has the full support of companies like Apple Music, Tidal, Netflix, Amazon, Dolby, Sony and Universal Music Group. Consumer electronics brands such as Sonos, Sony and Sennheiser are continuing to release more home listening products that support immersive audio playback. Car manufacturers such as Volvo and Mercedes Benz also now provide immersive solutions in their cars. There's even a Grammy Award for it. Immersive audio is here to stay.

## CEO's Statement

# How we ENRICH LIVES through MUSIC

**Tim Carroll**
Chief Executive Officer

> With a difficult backdrop, the diversity of the Group's portfolio has helped us maintain our position as market leaders.

**-9.7%**
Content Creation revenue growth vs. FY22

**30.1%**
Audio Reproduction revenue growth vs. FY22

## Introduction

I'm pleased to present our final results for 2023, highlighting the Group's journey over the past year. It was a year of challenges and opportunities, and the Group tackled both with a focus on our growth strategy, resulting in strong performance in a challenging market. As part of our strategic expansion, we welcomed Sonnox, a renowned software company specialising in professional audio effects and tools, into our Group.

Some of the challenges we faced in 2023 carried over from the previous year, notably the impact of rising living costs on home recording solutions and ongoing high component costs. As discussed in the half-year report, this resulted in softer sell through on many Content Creation products focused on the home recordist, and a build-up of inventory in the channel. The Group effectively addressed both issues, with our product inventory unwinding in the channel to targeted levels and pricing actions taken to protect margin without impacting our sell through volumes to end users. Our products continue to be top sellers in their various categories. In parallel, the Group witnessed a surge of demand for live and installed sound solutions, reinforcing the view that live events are back in a big way.

With 11 brands spanning Content Creation and Audio Reproduction, the Group's R&D efforts resulted in the successful launch of 32 new products and updates to 23 existing ones during the fiscal year. Additionally, we have continued to refine our go to market approach; most notably this past year with a combined EMEA sales and marketing team for our Content Creation brands, which has resulted in greater leverage and scale.

Our primary locations are in the UK (High Wycombe, Letchworth, Oxford and London), Germany (Berlin), Hong Kong, Australia (Melbourne), and the US (Los Angeles, Nashville and San Francisco).

Our employee base, which now totals 557, consists of a remarkable group of passionate professionals, including accomplished musicians, DJs, audio engineers, live sound experts and podcasters/ streamers. We are fortunate to have employees who actively use our solutions in real-world scenarios, contributing their experiences, feedback and technical expertise. We continue to invest in our people and look wherever possible to promote from within, whilst seeking out top talent from around the world across all divisions and brands.

### Our Group Structure

The Group's portfolio of solutions can be categorised into two broad categories:

**Content Creation:** Solutions that enable the creation of audio content for distribution or personal enjoyment – approx. 77% of total FY23 revenue comprised of four unique business units and eight industry-leading brands.

**Audio Reproduction:** Solutions that enable the reproduction of sound–approx. 23% of total FY23 revenue comprised of two unique business units and three brands.

Our two divisions cater to distinct customer bases; employ different routes to market and involve product-specific technical requirements for our products. Each individual business unit continues to focus on innovation, ensuring a robust roadmap of refreshes for current products whilst also introducing completely new solutions. Content Creation and live sound reproduction workflows are constantly evolving, and the Group aims to lead the industry by spending considerable effort and resources in our various R&D efforts.

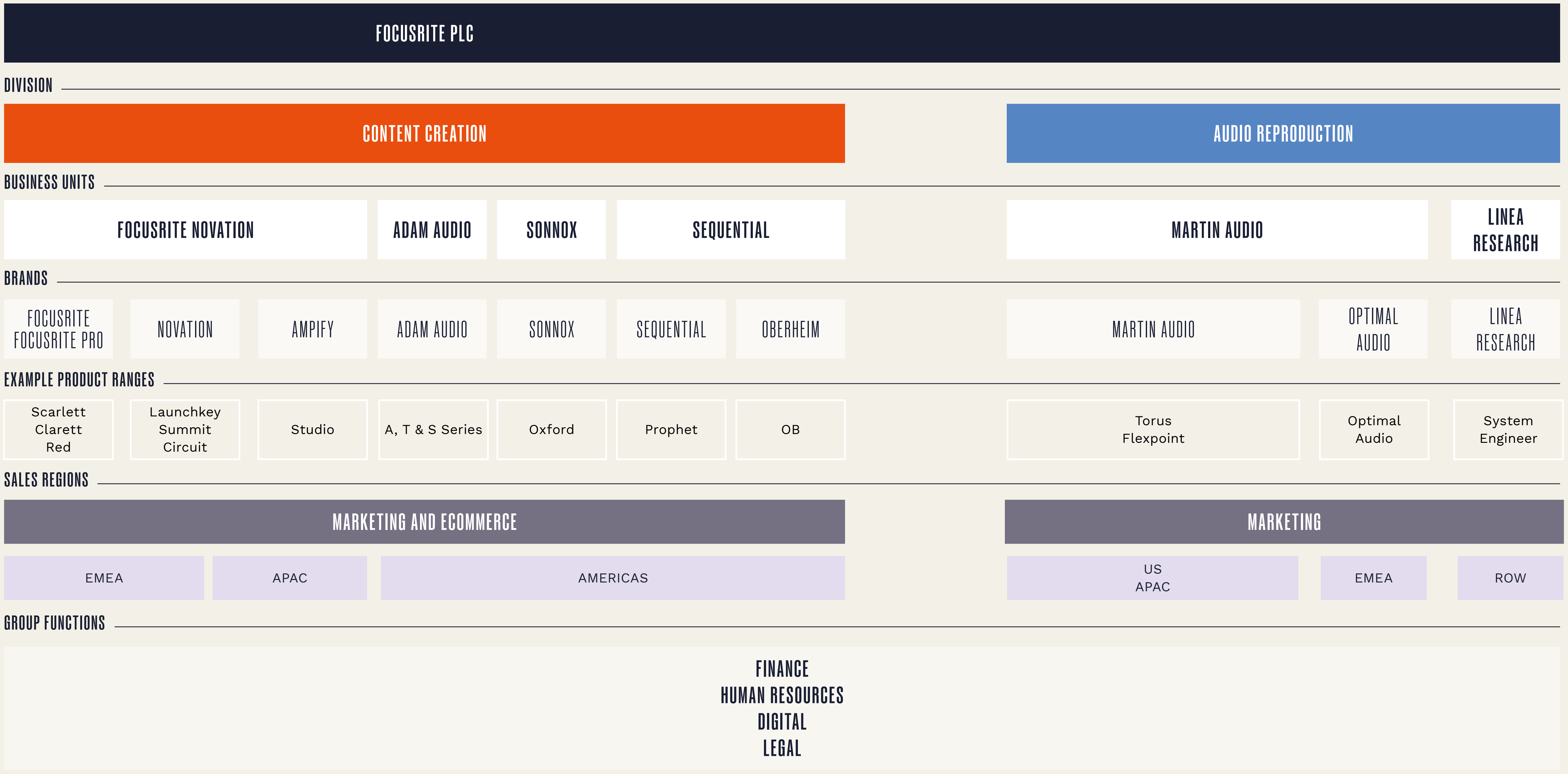
To support these brands we have implemented a unified go-to-market strategy managed by cohesive regional teams for each division. Additionally, all business units benefit from Group-led services across Finance, IT, and HR.

The Group is dedicated to gaining valuable insights from our customers, actively collecting data during their onboarding and user journey as they use our solutions. We closely monitor customer Net Promoter Scores ('NPS'), which serves as a key performance indicator ('KPI') across all our businesses. Additionally, we collate our own proprietary data with industry market sources to ensure that we consistently stay attuned to our customers' evolving needs and purchasing behaviours. More detail on our markets and customer types is provided elsewhere in this report.

Additionally, the Group maintains a very proactive stance towards M&A, carefully considering potential acquisitions that are not only earnings enhancing, but which can also expand our reach into existing and new markets and add to our R&D capabilities.

# **CEO's Statement** continued

## Our Group Structure



## Operating Review

Despite the challenging environment and the gradual return to normality following the pandemic, the diversity of the Group's portfolio has mitigated these impacts and maintained our position as market leaders. In the past year, our Content Creation division was down 9.8% compared with the prior year, whilst our Audio Reproduction brands, witnessing a strong return of live events globally, were up 30.1%. The Group's diversification across these two divisions has served us well across the past three years: when the pandemic hit and live events were shut, our Content Creation brands witnessed an unprecedented increase in demand, offsetting the decline in Audio Reproduction. As a result, while consumer-focussed brands in the Content Creation space grapple with rising living costs, inflated channel inventories, and artists returning to a more balanced recording and live performance schedule, the Group's Audio Reproduction brands have experienced a significant surge in demand during this live events revival.

## Content Creation

Content Creation encompasses the creation of audio content using various technologies. It spans from personal enjoyment to professional content production across diverse mediums, such as music, podcasting, and audio for film.

The global demand for content creation continues to increase with industry reports, such as IFPI Global Music Report 2023, indicating not only sustained growth, but also an expanding global reach driven by emerging market, enabling individuals worldwide to reach their global audience.

The pandemic and subsequent lockdowns accelerated this growth, as many people turned to music and podcast creation as a creative outlet. Musicians and streamers also used technology to stay in touch with their audiences and increase their productivity.

However, challenges relating to component availability and shipping, logistics began to plague all industries around mid-2022 which, for our industry, resulted in exceptionally low stock levels across our global channel. At the beginning of this past fiscal year, both component supply and freight costs began to ease up, resulting in a massive inflow of inventory to the channel. This coincided about concerns regarding rising living costs.

The net result was a very bloated channel, not just in our sectors, but across all sectors, such as guitars, wind instruments, pianos and other instruments. Industry trade publications have reported this phenomenon, with recent data from Music Trades indicating a 65% decrease compared to the prior year in guitar exports into the US for the quarter from April to June 2023. As outlined in our half-year presentation, the Group realised this early into the year and worked very collaboratively with our global channel partners on promotions and incremental marketing campaigns to drive down inventory. These efforts proved effective and, from all data points, we believe the Group performed materially better than our competitors and was able to maintain our market share and, in some instances, grow share as well.

Regionally, both North America and EMEA witnessed low single digit declines in revenue year over year. APAC saw a larger decline, most notably due to China, where the extended lockdowns ending and the larger scale of inflation had greater impact. To help mitigate this, the Group has continued to refine our route to market strategy across our Content Creation brands. We now have unified regional teams in the US, Latin America, Canada, EMEA and APAC, representing all our brands. This approach leverages our scale to optimise channel performance.

**Focusrite/Focusrite Pro** branded solutions include the Scarlett, Clarett, Vocaster, Red and Rednet range of audio interfaces. Scarlett, focused primarily on the home studio customer, continued to dominate the market, holding on to its leading market share even with a number of new competitors entering the space. As one of the Group's larger revenue-generating portfolio of products, Scarlett also had the additional challenge of a major product transition happening late in the second half. This required the Group to drive down inventory levels at an accelerated rate over the second half to ensure a smooth product transition to the next generation. The 4th generation Scarlett Solo, 2i2, 4i4 and related bundles launch was announced at the end of August 2023 to industry-wide accolades on the products' new features and specs. The Group successfully reduced inventory levels of the 3rd generation products, whilst working strategically with several key continental partners to place much of the remaining inventory of the 3rd generation product to be sold through the holiday season in the first half of FY24. This was made possible due to the price difference between the 3rd and 4th generation products, allowing us to effectively market a premium product to customers who would potentially opt for a lower-priced, lower specification product.

**Focusrite's Red and Rednet** solutions continue to set industry standards for professionals and facilities with complex workflows requiring reliability and quality. These products were deeply impacted by the AKM factory fire in Japan, which was the sole source for many professional grade audio products. The rework required to source and implement alternative silicon for these products was a substantial undertaking, requiring nearly two years of development resources. We are finishing the rework on the last remaining items and production is beginning to ramp up again.

# **CEO's Statement** continued

**Novation/Ampify** branded products are a collection of hardware and software solutions dedicated to the art of electronic music. These products, also cater to a wide range of customers, from the beginner to the professional electronic music maker. This category, like others in the industry, experienced reduced demand, primarily among younger artists affected by cost of living issues. Inside the different product categories, the Group saw the most softness in the groovebox and launchpad products, very much aligned to a younger, more price sensitive market. This was partially offset by an increase in our keyboard controller category, which the Group has expanded to support several different computer-based recording platforms and workflows. Ampify, our freemium software offering, saw a slight decline in both perpetual and subscription sales, aligning with industry trends, and influenced by global cost of living factors. These offerings remain a great vehicle for attracting new customers.

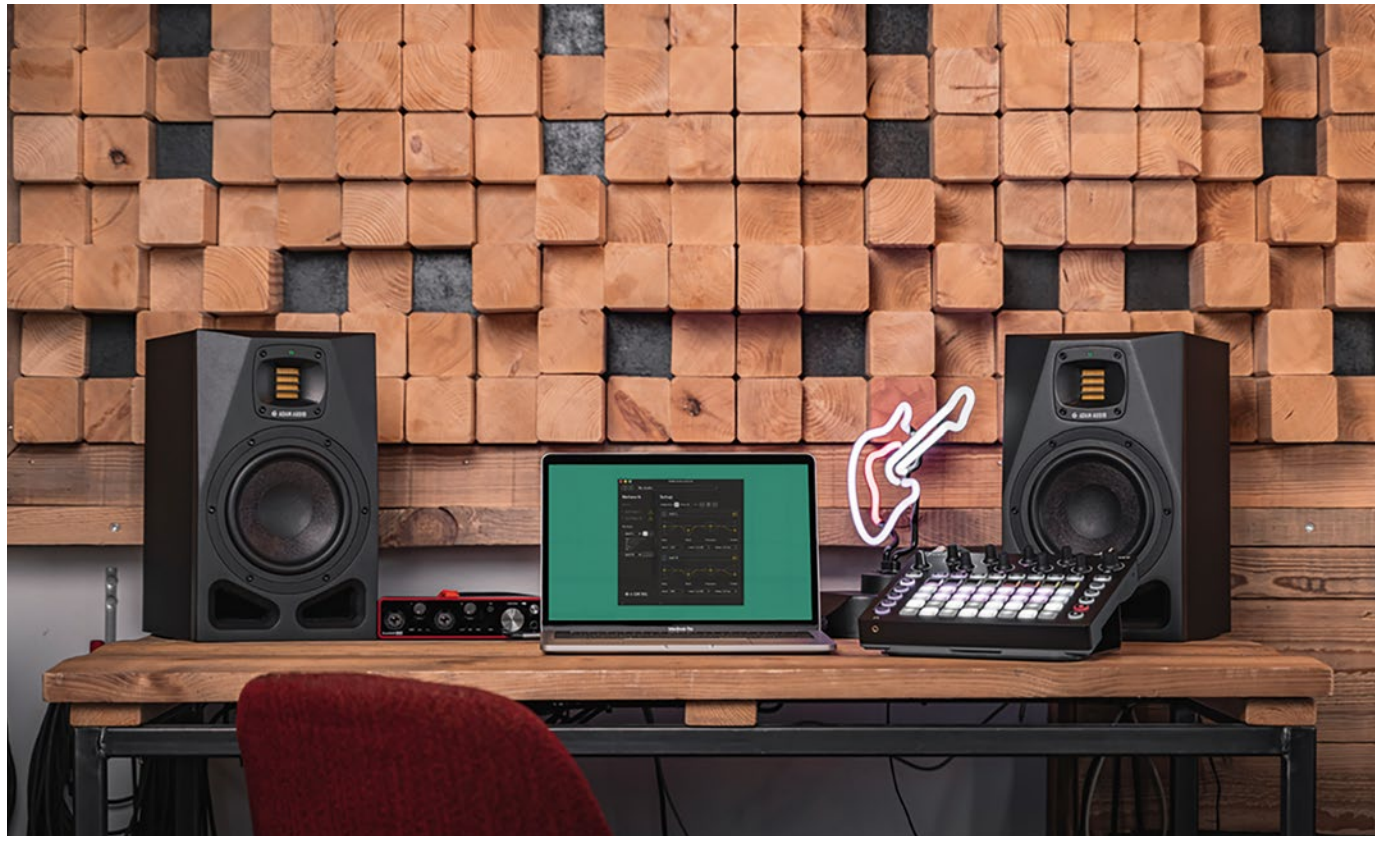
**ADAM Audio's** revenue increased slightly compared with FY22, defying the industry-wide trend reported in many market studies of approx 20% year over year declines.

This performance was partially due to a low comparator in FY22, as ADAM Audio had numerous components issues the previous year that resulted in extended stock outs on key products and a delay in introducing the new A Series line. All products have now been in stock and available for the full year and based on the various industry reports we receive and our own channel sales data, we believe ADAM Audio increased its market share year-on-year in a very challenging environment. While a larger portion of the revenue came from the lower-priced T Series this past year, we are seeing the new A Series solutions generating good traction in the professional market, with many choosing these solutions for upgrading their rooms to new immersive mixing formats, such as Dolby ATMOS.

**Sequential and Oberheim** also faced a challenging year: global industry reports highlighted a 25% decline in the synthesizer category compared to the previous year. Higher-priced products, such as those from Sequential and Oberheim, experienced even more declines. Sequential / Oberheim revenue for the year was down 10.9% on FY22, which, while a better result than industry data for the entire category, was partially driven by strong new product introductions in the previous year that were not repeated in FY23. This decline was partially offset by the introduction of the Oberheim OBX and Sequential Trigon 6 desktop modules. Both brands remain incredibly strong in this category.

**Sonnox** was acquired by the Group in December of this past year. Sonnox is a pure software business, with its portfolio of products sold by a select group of global resellers as well as direct to end user. Sonnox had a solid year, with sales meeting expectations. This performance was a combination of consistent sales on legacy products, successful planned seasonal promotions, and the launch of Voca toward the end of the fiscal year. Going forward, the Sonnox development team will continue to execute on its internal roadmap as well as working with several of the Group's other brands for future products.

**Summary:** After a challenging FY23, we anticipate the market stabilising in FY24, but with limited growth given the ongoing macro economic climate. For our established Focusrite brands, where we have achieved significant market penetration of up to 30% in some segments, we expect growth to align with the market, supported by new product introductions. For our newer brands, there is room to capture market share, increase penetration, and achieve above-market growth driven by market expansion and new product offerings.



## Audio Reproduction

The Group's Audio Reproduction brands, Martin Audio, Optimal Audio and Linea Research, are focused on delivering state of the art audio to audiences across a wide spectrum. From the largest music festivals to renowned theatres, music halls, night clubs, houses of worship, universities and more, our solutions ensure rich and memorable auditory experiences. As discussed in last year's Annual Report, the global Audio Reproduction industry faced a significant hiatus during most of the pandemic. Towards the end of 2022, live events gradually returned and we forecasted an accelerating return to normal for the industry across this past year. This acceleration materialised, resulting in a significant increase year over year for our brands in this space as well as the entire industry. Revenue for Audio Reproduction brands for the Group finished the year 30.1% up year over year and have carried over into the new year with a healthy order book.

Our **Martin Audio** brand of products is seen and heard in some of the largest music festivals and tours as well as many of the most prestigious music halls and theatres across the globe. Most notable this past year, Martin Audio solutions dominated the Glastonbury and Hyde Park music festivals, utilising a patented design that allows maximum coverage in the audience space whilst minimising the noise exterior to the event. Martin Audio introduced a range of new products across the year, including a new addition to the award-winning Torus family, and the new Flexpoint series, providing advanced solutions for shorter throw needs across live sound and installations. In total, Martin Audio had 15 new product introductions in the past year, a testament to the Group's decision to keep Martin Audio operational throughout the pandemic when many competitors temporarily closed their doors.

**Linea Research**, one of the Group's FY22 acquisitions, makes professional grade amplification for use in a multitude of live sound settings. Linea Research had an outstanding year, exceeding budget expectations and ramping up production to double the number of amplifiers previously produced. This result played heavily into Martin Audio's success as well, with most of its powered offerings utilising Linea Research amplification. Linea Research has also benefited from the Group's scale and leverage both for purchasing raw components and for logistics and operational support.

**Optimal Audio**, the Group's new commercial audio brand, is dedicated to bringing high-quality sound to a host of commercial installations. Launched in April of 2022, Optimal Audio has gained popularity among system integrators as an easy to use, high-quality sound solution for installations such as restaurants, gyms, smaller clubs, and universities. After a slow start with availability issues, due to the 2022 component crisis and a prioritisation call to focus on Martin Audio branded solutions, production has ramped up and the pipeline is growing as system integrators globally have begun specifying Optimal Audio into their bids.

**Summary**: As mentioned earlier, the audio reproduction market is currently thriving, with customers valuing audio experiences following the COVID-19 lockdowns. We anticipate this market will gradually normalise over the next year, returning to lower levels of growth. Martin's robust product pipeline and opportunities to take market share are expected to deliver growth levels surpassing the overall market trend.

## Routes to Market

The Group's two divisions are now supported by dedicated regional sales teams. Given the distinct nature of both end customers and channels, each division benefits from professional regional sales and marketing teams across EMEA, the Americas and APAC. As part of our growth strategy, the Group continues to refine its routes to market, looking for ways to optimise reach and return in every global region.

Audio Reproduction worked diligently to expand the global distribution network for Optimal Audio. The focus was on forging partnerships with entities that are closely aligned with system integrators well known for specialising in the targeted customer groups. Additionally, new partners in the equipment rental market, such as 22Live in the UK, emerged to meet the challenges of the resurgence of live events, making significant investments in Martin Audio's Wavefront Precision.

Within Content Creation, the Group was able to make some key changes to its go-to-market strategy. Historically each business unit in Content Creation had its own individual sales personnel managing relationships with their global channels. In many instances, each business unit engaged with the same resellers or distributors. The Group had already consolidated our Content Creation efforts in Australia the previous year with the new structure proving highly beneficial in terms of extending leverage and focus within the reseller community.

Consequently, the Group initiated the same strategy in EMEA, bringing together several disparate teams into one unified Content Creation sales and marketing team for all associated brands. The result has again proven to be very effective. As a result, in the last quarter of this past year we began to restructure the US team into a similar unified regional team supporting all Content Creation brands. We anticipate that these newly formed unified teams will allow us to forge closer connections with our channel partners and end users while providing scalability and improved organisational structure as the Group pursues organic growth and acquisitions.

Our eCommerce platform has also been completely rebuilt during the year, initially for the Focusrite brands, but now giving us a platform for all our Content Creation brands and to provide a more robust route for our direct to consumer channel.

## Summary and Outlook

Despite challenging macroeconomic conditions, our Group has delivered a resilient performance, achieving revenue and profit figures in line with market expectations. With our existing portfolio, planned product launches throughout the coming year, streamlined go-to-market strategies and shared back-office support structures, we are well positioned to embrace the opportunities and challenges the new year presents.

Current market conditions for our Content Creation division remain difficult and our revenue year to date has been impacted by a degree of sales channel destocking. However, underlying demand for our products, as evidenced by customer registrations, remains satisfactory. Performance in our Audio Reproduction division remains strong. Overall, at this early stage, and as we head into our key holiday season, our expectations for the year remain unchanged.

Whilst we remain mindful of the significant global economic and political challenges, as well as ongoing cost pressure in the supply chain, we have successfully built our inventory positions back to more normalised levels and have robust plans for future component supplies as well. With key new products launched towards the end of FY23 and more introductions planned for the year ahead, we remain confident in the organic growth potential of existing brands. Additionally, with the benefit of our cash generation, the Group has demonstrated its ability to execute on our proactive M&A strategy, carefully considering acquisitions that not only enhance earnings but also expand our market potential, increase our R&D capabilities and contribute both scale and dynamism to our business.

We remain optimistic about our future prospects.

**Tim Carroll**

Chief Executive Officer

28 November 2023

# Financial Review

**Sally McKone**
Chief Financial Officer

> **FY23 was marked by economic challenges, including macroeconomic instability and industry-wide inventory surpluses. Throughout this period, the Group adhered to its strategic path, solidifying our infrastructure and improve our capability expand future operations.**

# DIVERSE SOLUTIONS PROVIDING STRENGTH

Focusrite is unique as being the only global group of branded businesses in the music technology industry listed on the London Stock Exchange. It is therefore with great pride that I present this set of financial results, our ninth as a public company, and one in which we have once again made substantial progress.

## Overview

Against a challenging market, the Group has seen revenues decline by 2.9% and, despite a stronger gross margin, adjusted EBITDA has reduced by 7.4%, with a decline of 23% in adjusted diluted earnings per share ('EPS').

### Income statement

| | 2023<br>£m<br>Adjusted | 2023<br>£m<br>Non-underlying[1] | 2023<br>£m<br>Reported | 2022<br>£m<br>Adjusted | 2022<br>£m<br>Non-underlying[1] | 2022<br>£m<br>Reported |
|---|---|---|---|---|---|---|
| Revenue | 178.5 | – | 178.5 | 183.7 | – | 183.7 |
| Cost of sales | (93.7) | – | (93.7) | (100.4) | – | (100.4) |
| Gross profit | 84.8 | – | 84.8 | 83.3 | – | 83.3 |
| Administrative expenses | (54.4) | (6.1) | (60.5) | (48.6) | (6.0) | (54.6) |
| Operating profit | 30.4 | (6.1) | 24.3 | 34.7 | (6.0) | 28.7 |
| Net finance (expense) income | (1.6) | – | (1.6) | 1.9 | – | 1.9 |
| Profit before tax | 28.8 | (6.1) | 22.7 | 36.6 | (6.0) | 30.6 |
| Income tax expense | (6.2) | 1.3 | (4.9) | (6.0) | 0.2 | (5.8) |
| Profit for the period | 22.6 | (4.8) | 17.8 | 30.6 | (5.8) | 24.8 |

[1] Non-underlying costs and income as defined in note 5 and note 15 to the Group financial statements.

### Revenue

Revenue for the Group decreased by 2.9% to £178.5 million from £183.7 million; adjusting for acquisitions and at constant currency, this is an organic decline of 9.5%. Sonnox was acquired in December 2022 and FY23 included eight months of revenue. Linea Research was acquired in March 2022 and FY22 includes six months of revenue.

The Euro average exchange rate was €1.15 (FY22: €1.18). Sterling has weakened against the US dollar from an average of $1.31 in FY22 to $1.21 in FY23. This has had the impact of increasing reported revenue but the currency impact is broadly neutral at a gross profit level as the majority of cost of sale are also incurred in US dollars.

| | FY23<br>Revenue | FY23<br>Acquisition | FY23<br>Organic | FY22<br>Revenue | FY22<br>Exchange | FY22<br>Constant<br>Currency | FY23<br>Reported<br>Growth | FY23<br>OCC<br>Growth[1] |
|---|---|---|---|---|---|---|---|---|
| Focusrite | 86.3 | – | 86.3 | 97.2 | 5.8 | 103.0 | -11.2% | -16.2% |
| Novation | 16.6 | – | 16.6 | 20.6 | 1.1 | 21.7 | -19.5% | -23.5% |
| ADAM Audio | 18.5 | – | 18.5 | 17.8 | 0.9 | 18.7 | 3.9% | -1.1% |
| Sequential | 14.5 | – | 14.5 | 16.2 | 0.9 | 17.1 | -10.5% | -15.2% |
| Sonnox | 1.1 | (1.1) | – | – | – | – | N/A | N/A |
| Content Creation | 137.0 | (1.1) | 135.9 | 151.8 | 8.7 | 160.5 | -9.7% | -15.3% |
| Audio Reproduction – Martin Audio | 41.5 | (2.3) | 39.2 | 31.9 | 0.9 | 32.8 | 30.1% | 19.6% |
| Total | 178.5 | (3.4) | 175.1 | 183.7 | 9.6 | 193.3 | -2.9% | -9.5% |

[1] OCC (organic constant currency growth). This is calculated by comparing FY23 revenue with FY22 revenue adjusted for FY23 exchange rates and the impact of acquisitions.

The reported full-year revenue declined by 2.9%, but there was an improvement compared to the half-year (HY23: -7.2% reported). Revenue in the second half of the year grew by 1.5% compared to the same period in FY22. In the first half of the year, high inventory levels in our sales channel, resulting from industry-wide restocking in FY22, and the impact of cost of living issues on demand led to destocking. However as stock levels normalised in the second half, revenue returned to growth, supported by the launch of new products, including the 4th generation Scarlett Audio Interface, which although released in August was sold into resellers in the preceding quarter.

The overall revenue figures mask a more complex result across our divisions, but pleasingly highlight the benefits of an increasingly diverse portfolio across the Group. Our Content Creation brands were faced by difficult markets, down by approximately 20% on the prior year according to information from our channel partners. This compares with Audio Reproduction, which is still benefiting from the increased demand for live experiences following the end of COVID-19, particularly at the premium end of the market in which our brands predominantly operate.

Within Content Creation, our biggest business unit, Focusrite, returned to growth in the second half following destocking in the first half and supported by the successful launch of our 4th generation range of Scarlett interfaces. This brand finished the year 16.2% lower on an organic constant currency basis and 11.2% lower on a reported basis at £86.3 million (FY22: £97.2 million). Our Novation synthesizer brand, which had fewer new products compared to offset, reported a decline in line with the overall market. Both ADAM Audio and Sequential were adversely impacted in FY22 by component shortages, limiting supply and, as a result, had weak comparators in the first half. This resulted in stronger growth in the first half, and a reported decline in the second half. For the full year, ADAM Audio's revenue benefited from improved supply of the new A Series and the ongoing popularity of the entry level T Series monitor range. This resulted in revenues growth of 3.9% for the year (-1.1% on an organic constant currency basis) to £18.5 million (FY22: £17.8 million).

# **Financial Review** continued

Sequential operates at the premium end of the synthesizer market, with products selling for approximately $3,000 to $5,000 and as a result, they were particularly hard hit by the cost of living crisis and experienced a decline of reported revenue of 10.5% (-15.2% on an organic constant currency basis) for the year. This appears to be ahead of the overall market decline according to channel partners due to the launch of its new products, such as the Trigon 6 and OBX modules, with Sequential retaining their premium rating.

Sonnox was acquired by the Group in December 2022, and contributed £1.1 million in revenue during FY23. This result was in line with expectations. Towards the end of the year Sonnox launched as planned its new Voca plug-in contributing to the revenue result.

Audio Reproduction began the first half of the year with strong growth of 50.7%, finishing the year with reported revenue growth of 30.1% (19.6% on an organic constant currency basis). This translates into revenue of £41.5 million for the year, compared with £31.9 million in FY22. The resurgence in live sound following COVID-19 lockdowns helped drive this growth, as did the extension of the Optimal Audio range, which contributed £1 million to Audio Reproduction's overall sales. The standout result for the year has been the strength of Linea Research, which has doubled output since joining the Group in March 2022, following investment from Martin Audio in delivering a new ERP system and supply chain support.

| | **FY23 Revenue** | **FY23 Acquisition** | **FY23 Organic** | FY22 Revenue | FY22 Exchange | FY22 Constant Currency | **FY23 Growth** | **FY23 OCC Growth[1]** |
|---|---|---|---|---|---|---|---|---|
| North America | **77.7** | **(1.5)** | **76.2** | 74.5 | 4.6 | 79.1 | **4.3%** | **-3.8%** |
| EMEA | **69.5** | **(1.4)** | **68.1** | 70.1 | 1.5 | 71.6 | **-0.8%** | **-4.9%** |
| Rest of the World | **31.3** | **(0.5)** | **30.8** | 39.1 | 3.5 | 42.6 | **-19.9%** | **-27.7%** |
| Total | **178.5** | **(3.4)** | **175.1** | 183.7 | 9.6 | 193.3 | **-2.9%** | **-9.5%** |

[1] OCC (organic constant currency growth). This is calculated by comparing FY23 revenue with FY22 revenue adjusted for FY23 exchange rates and the impact of acquisitions.

North America represents 44% of the Group's revenue and saw a 3.8% organic constant currency revenue decline, impacted by destocking and a weaker market hit by cost of living issues. Due to the strength of the dollar during the year, reported revenue increased by 4.3%. Content Creation brands declined year on year by 2.2% reported (-8.2% organic constant currency). However Audio Reproduction experienced strong growth of 56.9% (reported) and 31.9% organic constant currency. The combination of new products, a strong supply chain and investment in the market have all served to deliver a firm foundation for growth in the US for Audio Reproduction.

EMEA, which represents 39% of Group revenue, declined by 0.8% (-4.9% on an organic constant currency basis) to £69.5 million. As within the US market, Audio Reproduction was strong, delivering 17.1% growth (9.6% on an organic constant currency basis), with production from Linea Research helping to deliver improved levels of product availability compared with the competition. Content Creation brands declined by 5.4% (-8.6% on an organic constant currency basis), with ADAM Audio delivering a return to growth and Focusrite remaining stable, but with Sequential and Novation contributing to the overall decline.

ROW comprises mainly APAC and LATAM and represents the remaining 17% of Group revenue. The APAC region experienced a particularly challenging year, with prolonged lockdowns in China, and high levels of stock at distributors as a result of the lower demand. Overall, the region was down 19.9% compared with FY22 (27.7% on an organic constant currency basis). Pleasingly, our Audio Reproduction division saw growth, with all brands reporting double digit increases as demand for experiences increased. This resulted in growth of 26.6% in the region (23.1% organic constant currency), however, this was not enough to offset the 35.3% decline across Content Creation (42.7% organic constant currency).

### Segment profit

Segment profit is disclosed in more detail in note 8 to the Group's financial statements, 'Business Segments'. The revenue is compared with the directly attributable costs to create a segment profit. The only major change is the inclusion of Sonnox as a separate segment following its acquisition in December 2022.

### Gross profit

Gross margin improved during FY23 increasing to 47.5%, up from 45.3% in FY22, which had been impacted by high freight rates and the increased costs from component spot buys. During the reported year freight rates returned to pre-COVID-19 levels, benefiting margin by 3.9 percentage points, and component cost spot buys reduced significantly with a further 0.8 percentage point benefit. This was partially offset by increased promotions across the year, with heavier discounts for longer promotional periods offered than historically had been the case. These were implemented as a response to the increased pressures caused by the cost of living crisis and high levels of stock in the channel. Altogether with cost increases this resulted in a 3.2 percentage point decline in our core product margin, which partially offset the freight benefits.

Promotional levels in FY24 are expected to return to more normal levels for current ranges, with some ongoing activity to support the 3rd generation of Scarlett, with a planned transition to be marketed as a lower-cost alternative at a different price point, similar to Apple's approach to iPhone transitions. In addition, the new 4th generation Scarlett will be mildly dilutive to margin, as new products do not yet attract the production efficiencies at scale that well-established products typically achieve. As a result, we expect overall gross margin to be broadly flat in the next year.

### Administrative expenses

Administrative expenses consist of sales, marketing, operations, the uncapitalised element of research and development and central functions such as legal, finance and the Group Board. These expenses were £60.5 million, up from £54.6 million last year. These costs also include depreciation and amortisation of £8.1 million (FY22: £7.0 million), amortisation of acquired intangible assets of £4.5 million (FY22: £5.1 million) and non-underlying items of £1.7 million (FY22: £0.9 million), which are discussed in more detail below. Excluding non-underlying items and depreciation and amortisation, administrative costs were £46.3 million (FY22: £41.6 million), an increase of £4.7 million over the prior year.

Acquisitions partially contributed to this increase, with the addition of Sonnox contributing £0.8 million and the annualisation of Linea Research a further £0.4 million. Audio Reproduction has invested in additional staff to support the increase in operations and to drive sales and marketing efforts globally, including increased trade show activity during the year.

During a time of heightened inflation, we have sought to retain staff and structured pay increases with the aim of directing resources to those most impacted by cost pressures. With approximately 60% of our cost base relating to labour costs, this has resulted in an inflationary increase of around £1.4 million across the year. Changing assumptions about the vesting of share-based payments has resulted in a £0.3 million credit this year (FY22: £1.3m charge), which is not expected to repeat next year, but was offset this year by the increase in bonuses from a lower level in FY22.

We are now a much larger and more complex international Group and so have invested during this year in strengthening our infrastructure. These investments include cyber security and a new eCommerce platform for the Focusrite brands, capable of being scaled across all of Content Creation. As part of our return to work programme, we have also invested in the Group's office space, with a new office for the Focusrite brands and refurbished offices for both Martin Audio and ADAM Audio. This has resulted in one-off costs of £0.4 million due to the disruption which are not expected to repeat in FY24.

### Adjusted EBITDA

EBITDA is a non-GAAP measure, but it is widely recognised in the financial markets and it is used (as adjusted for non-underlying items) as a key performance measure and is the basis for some of the incentivisation of senior management within the Group. Adjusted EBITDA decreased from £41.7 million in FY22 to £38.6 million in FY23. This was primarily as a result of the lower sales and overhead cost factors described above.

| | **2023 £m Adjusted** | **2023 £m Non-underlying** | **2023 £m Reported** | 2022 £m Adjusted | 2022 £m Non-underlying | 2022 £m Reported |
|---|---|---|---|---|---|---|
| Operating profit | **30.4** | **(6.1)** | **24.3** | 34.7 | (6.0) | 28.7 |
| Add – amortisation of intangible assets | **5.5** | **4.4** | **9.9** | 4.8 | 5.1 | 9.9 |
| Add – depreciation of tangible assets | **2.7** | **–** | **2.7** | 2.2 | – | 2.2 |
| EBITDA[1] | **38.6** | **(1.7)** | **36.9** | 41.7 | (0.9) | 40.8 |

[1] EBITDA is defined as earnings before tax, interest, depreciation, and amortisation. Adjusted EBITDA includes items treated as non-underlying which are explained in notes 5 and 15 to the Financial Statements.

### Depreciation and amortisation

Depreciation of £2.7 million (FY22: £2.2 million) was charged on tangible fixed assets on a straight-line basis over the assets' estimated useful lives. This increased in the year due to the investment in the office refurbishments and resultant increases in fixtures and fittings, which are written off over three to five years. Amortisation on non-acquired intangibles is mainly charged on capitalised development costs, writing off the development cost over the life of the resultant product. Development costs related to an individual product are written off over a periods of between two and ten years, reflecting the different lifespans of the products across our brands. Normally, the capitalised development costs are greater than the amortisation, reflecting the continued investment in product development in a growing group of companies.

During FY23, capitalised development costs were £8.6 million (FY22: £7.9 million), compared with amortisation of £4.8 million (FY22: £3.9 million). Development cost spend is slightly higher than the prior year, mainly due to inflation, as the implementation of our product roadmap continues across all brands. In addition, this year we acquired further licences to utilise certain technologies, which have added £1.7 million to intangible assets, with further investment expected in FY24.

The amortisation of the acquired intangible assets totalled £4.4 million during the period (FY22: £5.1 million) and has been disclosed within adjusted items. This year we have amended our accounting policy relating to the amortisation of acquired intangibles under development, such that it now commences from the date of first usage of the underlying product rather than from the date of acquisition of the business, and this has resulted in a £1.0 million reversal of amortisation charged in previous periods, excluding this gross amortisation was £5.4 million.

### Non-underlying items

In FY23, the Group acquired Sonnox, with associated acquisition costs relating to the transaction of £0.4 million (FY22: £0.6 million relating to the Linea Research acquisition). During the year earnouts relating to the Linea Research and Sequential acquisitions were completed and paid out resulting in a cost of £0.8 million (FY22: £1.2 million relating to the Sequential earn out).

During the year, the Group also undertook a restructuring exercise to create regional sales and marketing teams across the Content Creation division. This has resulted in one-off restructuring costs of £0.5 million paid in the year. In FY22, non-underlying costs were offset by £0.8 million of income relating to the sale of a trademark. Non-underlying items also include amortisation of the intangible assets from acquisitions of £4.4 million (FY22: £5.1 million). This has increased due to the inclusion of Sonnox and the annualisation of Linea Research on amortisation of brands and technology, but has been offset by the one off adjustment of amortisation of £1.0 million incorrectly charged in prior years on assets not yet brought into use. See notes 5 and 15 to the Group's financial statements for more information.

# **Financial Review** continued

### Foreign exchange and hedging

Sterling has remained relatively stable compared with the Euro between years, but the average rate has weakened against the US dollar.

| Exchange rates | 2023 | 2022 |
|---|---|---|
| Average | | |
| USD:GBP | **1.21** | 1.31 |
| EUR:GBP | **1.15** | 1.18 |
| Year end | | |
| USD:GBP | **1.27** | 1.16 |
| EUR:GBP | **1.17** | 1.16 |

During the year, Sterling has weakened against the average US dollar rate from $1.31 to $1.21. The US dollar accounts for 40% of Group revenue but over 80% of the cost of sales, so this has resulted in increased revenue but has a neutral impact in terms of gross profit. The Euro comprises approximately a quarter of revenue but little cost. The Group has continued entering into forward contracts to convert Euro to Sterling. The policy adopted by the Group is to hedge approximately 75% of the Euro flows for the current financial year (year ended August 2023) and approximately 50% of the Euro flows for the following financial year (FY24). In FY23, approximately three-quarters of Euro flows were hedged at €1.16, and the average transaction rate was €1.15, thereby creating a blended exchange rate of approximately €1.16. In FY22, the equivalent hedging contracts were at €1.13, compared to a transactional rate of €1.18 and so creating a blended exchange rate of €1.14.

Finance costs of £1.6 million (FY22: £2.3 income) are made up of the interest on the Group's revolving credit facility ('RCF') draw downs. FY22 included a large gain from retranslation of US dollar intra-Group balance within the Group, which now has hedging in place to offset future movements.

### Corporation tax

In FY23, the corporation tax charge totalled £4.9 million on reported profit before tax of £22.7 million, an effective tax rate of 21.8% (FY22: 18.9%). Adjusting for non-underlying items, the effective tax rate is 21.7% (FY22: 19.6%) on adjusted profit before tax of £28.9 million. Going forward, we expect the effective tax rate to remain broadly in line with the UK corporate tax rate.

### Earnings per share (EPS)

The basic EPS for the year was 30.4 pence, down 28.5% from 42.5 pence in FY22. This decrease is due to a combination of factors: the reduction in operating profits, the non-repeat of a significant foreign exchange gain in finance income in FY22 due to an exceptionally strong dollar at the year end, and the increase in the UK corporate tax rate from 19% to 25% from April 2023. The alternative measure, including the dilutive effect of share options, is the adjusted diluted EPS. This decreased by 23% from 49.9 pence in FY22 to 38.4 pence in FY23.

| | 2023 pence | Restated 2022 pence[2] | Change % |
|---|---|---|---|
| Basic | **30.4** | 42.5 | (28.5)% |
| Diluted | **30.2** | 42.1 | (28.3)% |
| Adjusted[1] basic | **38.7** | 50.5 | (23.4)% |
| Adjusted[1] diluted | **38.4** | 49.9 | (23.0)% |

[1] Adjusted for amortisation of acquired intangible assets and other adjusting items (see notes 15 and 20).

[2] Restated in FY22 to include the deferred tax credit arising on the amortisation of acquired intangibles, which was not previously included.

## Balance sheet

| | 2023 £m | 2022 £m |
|---|---|---|
| Non-current assets | **95.9** | 87.5 |
| Current assets | | |
| Inventories | **55.3** | 48.3 |
| Trade and other receivables | **32.9** | 28.9 |
| Cash | **26.8** | 12.8 |
| Bank loan | **(28.1)** | (13.1) |
| Current liabilities | **(45.4)** | (41.1) |
| Non-current liabilities | **(18.9)** | (18.0) |
| Net assets | **118.5** | 105.3 |

### Non-current assets

The non-current assets comprise: goodwill of £16.1 million, other intangible assets of £66.7 million, and property, plant and equipment of £12.5 million. The goodwill of £16.1 million (FY22: £13.7 million) has increased due to the acquisition of Sonnox this year for a total consideration of £7.3 million including goodwill of £2.7 million.

The other intangible assets of £66.7 million (FY22: £62.0 million) consist mainly of capitalised research and development costs and acquired intangible assets relating to product development and brand. The capitalised development costs in use have a carrying value of £10.0 million (FY22: £7.1 million), which has increased with the launch of 32 products this year. Products and technology under development comprising £8.5 million (FY22: £7.3 million), of which £2.0 million relates to acquired assets under development (FY22: £1.5 million). In the year £8.6 million of costs were capitalised (FY22: £8.3 million) and underlying amortisation was £4.8 million (FY22: £3.9 million). Approximately 65% of development costs are capitalised and they are amortised over the life of the relevant products.

Acquired capitalised development costs had a carrying value of £24.3 million (FY22: £22.8 million) at year end. These have increased due to the inclusion of Sonnox's development costs of £4.7 million less the annual amortisation charge of £3.5 million.

The remaining intangible assets, totalling £23.9 million (FY22: £24.6 million), include brands acquired as part of the acquisitions, to be amortised over ten years for ADAM Audio, 20 years for Martin Audio, 15 years for Sequential and Linea Research and 10 years for Sonnox.

Tangible assets have increased this year from £10.9 million at the end of FY22 to £12.5 million at the end of FY23, due to the refurbishment costs this year across three of our businesses. Focusrite has moved to a new office in High Wycombe, providing space for growth and an engaging working environment designed specifically with hybrid working in mind. Martin Audio and ADAM Audio offices have both been refurbished as part of their return to work programme. The work at Martin Audio has also built improved demonstration spaces and facilities for research and development.

### Working capital

At the end of the year, working capital was 24% of revenue (FY22: 19.9%). This increase can be attributed in part to planned phasing of stock levels for both generations of Scarlett. The older generation will be marketed as a lower-cost alternative through selected partners and our own eCommerce channel and, as a result, we expect inventory levels to reduce during FY24. Debtor balances are also high due to strong sales in the final quarter of the year, but with effective credit management there have been minimal issues with collections or bad debts during the year. Creditors continue to be paid on time.

## Cash flow

| | 2023 £m | 2022 £m |
|---|---|---|
| Cash and cash equivalents at beginning of year | **12.8** | 17.3 |
| Foreign exchange movements | **(1.0)** | 0.7 |
| Cash and cash equivalents at end of year | **26.8** | 12.8 |
| Net increase (decrease) in cash and cash equivalents (per Cash Flow Statement) | **15.0** | (5.2) |
| Change in bank loan | **(15.2)** | (13.2) |
| Increase in net debt (before foreign exchange movements) | **(0.2)** | (18.4) |
| Add back: equity dividend paid | **3.6** | 3.2 |
| Add back: acquisition of business (net of cash acquired) | **7.2** | 10.9 |
| **Free cash flow** | **10.6** | (4.3) |
| Add back: non-underlying items | **1.7** | 0.9 |
| **Underlying free cash flow[1]** | **12.3** | (3.4) |

[1] Defined as cash flow before equity dividends, acquisition of subsidiary (net of cash acquired) and adjusting items.

### Debt

The net debt balance at the year end was £1.3 million (FY22: net debt £0.3 million). In September 2023, the Group signed a new £50 million RCF, with an additional £50 million uncommitted facility with HSBC and NatWest due to expire in September 2027. At the year end, the Group had drawn down £28.2 million of the RCF (FY22: £13.2 million) to fund the acquisition of Sonnox as well as support our working capital requirement.

The underlying free cash flow for the full year was a cash inflow of £12.2 million (FY22: cash outflow of £3.4 million), leading to a year end net debt position of £1.3 million. Within this, the movement in working capital included an outflow of £6.6 million (FY22: outflow of £26.9 million), due largely to stock holding for product transitions and debtor phasing. Capital investment this year totalled £14.4 million (FY22: £12.5 million); of this, £9.2 million related to capitalised R&D, reflecting the Group's ongoing commitment to product development. We expect this level of investment to continue into FY24 to support the Group's product roadmap.

## Dividend

The Board is proposing a final dividend of 4.5 pence per share (FY22 final dividend: 4.15 pence), which would result in a total of 6.6 pence per share for the year (FY22: 6.0 pence). This represents an adjusted earnings dividend cover of 5.8 times (FY22: 8.7 times).

## Summary

FY23 was marked by economic challenges including macroeconomic instability and industry-wide inventory surpluses. Throughout this period, the Group adhered to its strategic path. FY24 begins with the finalisation of a product transition of our primary Scarlett range, a restructured sales and marketing team, a new banking facility in place and a rebuilt eCommerce platform. The portfolio is also broader by introducing Sonnox to the Focusrite family. These initiatives provide us with the structure and scale to deliver on our future plans.

**Sally McKone**
Chief Financial Officer

28 November 2023

# Principal Risks and Uncertainties

Effective risk management is key to enabling and supporting our business strategy and commitments to our customers, community, climate and environment. We are committed to conducting our business responsibly, safely and legally, while making risk-informed decisions when responding to opportunities or threats that present themselves. The Board and General Executive Committee are responsible for the effective management of risk across the Focusrite Group.

Principal risks are those risks that to pose the most potential threat to our strategy, performance, viability, people, impact on the environment and/or reputation now or in the near and distant future.

The table below sets out our principal risks. Please note, this list does not include all of our risks. Risks which change or are not presently known or are currently considered to be less material, may also have adverse effects.

| Description | Change vs. prior year and residual risk | Impact on the business | Risk mitigation |
|---|---|---|---|
| **Business strategy development and implementation** | | | ↔ No risk movement |
| **The risk of not identifying and reacting to changing market conditions, not being able to implement our acquisition strategy or bring efficiencies to our route to market strategy can impact our growth.** | The risk remains relatively stable as we monitor drivers for macroeconomic changes and implement appropriate response strategies to manage their impact on the Focusrite Group's performance. This has enabled us to ensure that the risk is managed appropriately in line with any changes to external conditions. | Ensuring that our products win customers is key to being able to keep up with inflation and Group growth. | The Group has a multi-stranded resilience plan with an increasingly diverse range of products which ensures there are various revenue streams to enable Group growth and an increasing number of direct to market routes, which enables us to reach more customers. |
| **Product supply** | | | ↑ Risk increasing |
| **Risks associated with market demand, including the availability of materials to manufacture products and our ability to sell and deliver products into new and existing key markets.** | Exposure to risks associated with our product supply increased in FY23 due to external changes over which we have little influence. | The continuing conflict in Ukraine and the Midddle East and rising geopolitical tensions as well as increased volatility and uncertainty in the international trading environment could cause disruption of global supply chains and affect macroeconomic conditions and our ability to sell our products. | In addition to diversifying our product portfolio we also continually monitor and assess:<br>• our ability to access key markets;<br>• relationships with our sales partners and their expectations of market demand;<br>• geopolitical and macroeconomic developments and trends; and<br>• weather and/or climate-related vulnerabilities. |
| **Product innovation** | | | ↑ Risk increasing |
| **Risks associated with our ability to design, manufacture and position our products to generate returns and value for stakeholders in a fast-changing industry.** | We have increased our user testing and influencer endorsements to test and exalt our products to ensure that they meet the current market expectations. | A design strategy that does not result in innovative products will lead to a loss of value which in turn will impact our ability to deliver returns to stakeholders and fund our investment and growth opportunities and expose our product portfolio to climate-related risks, movements in commodity prices or inflationary pressures and other macroeconomic factors. | The Group has developed resilient strategies, processes and frameworks to grow and protect our product portfolio. Our business development strategy focuses on enhancing our product portfolio to ensure the Group retains its competitive advantage and identifies threats to or opportunities for our products. |

| Description | Change vs. prior year and residual risk | Impact on the business | Risk mitigation |
|---|---|---|---|
| **People** | | | ↑ Risk increasing |
| **People are critical to the Group's ability to meet the needs of its customers and end users and achieve its goals as a business.**<br>**Failure to attract, retain and develop senior managers and technical personnel, and to embed our values in our culture, could impact on the delivery of our purpose and business performance.** | The challenges arising from external conditions, in particular the spike in cost of living, poses a threat to the wellbeing of our people and our ability to retain people buoyed by the favourable jobseekers' market. | We continue to rely on key individuals to contribute to the success of the Group. We need our people to develop their skills in order to future-proof the Group's business whilst being able to attract, retain and motive people. | Training and development programmes are established across the Group to develop the skills required to fulfil the Group's strategic objectives. Succession planning for key roles and the identification of any new skillsets are reviewed by the Board. |
| **Information security, data privacy, business continuity and cyber risks** | | | ↑ Risk increasing |
| **The unencumbered availability and integrity of the Group's IT systems and the threat of a cyber security breach or a malicious attack is an on-going and critical threat to successful trading.** | Investment in our cyber shields and efforts to support and drive employee awareness of phishing attacks and how to respond appropriately have continued. | Disruption to our information systems may have a significant impact on our sales, cash flows and profits.<br>A cyber security breach could lead to unauthorised access to, or loss of, personal and/or sensitive information. | The Group's business continuity plan has been updated.<br>Regular system and security patching is in place, including the use of vulnerability scanning to identify security weaknesses.<br>We also run regular phishing campaigns to raise awareness and such exercises are supported by training and guidance. |
| **Climate change** | | | ↑ Risk increasing |
| **Climate change is a multifaceted risk to the business at many levels. Failure to deliver on climate change initiatives, particularly around the reduction in the use of energy and carbon within required timescales, will have short-, medium- and long-term climate change risks to residents, businesses and infrastructure.** | Climate change is a concern for customers and stakeholders alike as well as being an area of increasing scrutiny and regulation.<br>This year, we have built on our TCFD work from last year and have concluded that in, the short term (up until 2030), we are largely shielded from the worst physical effects of climate change, but will continue to monitor our exposure to climate-related risks on a regular basis. | Reduced availability of raw materials could have several effects, from fluctuating and rising prices to uncertainty in the supply chain to our having to use lower-quality raw materials in our products.<br>We expect regulation and the possibility of taxes on less sustainable materials or processes to increase.<br>We are also aware that our customers expect us to lead the way in running a sustainable business and it will have an impact on our reputation if we fail to adequately address these concerns. | Managing our operations towards a low-carbon future in order to sustain the longevity and prosperity of the business, remains one of our key mitigation efforts.<br>Sustainability criteria are embedded throughout the product design process in order to mitigate risks and identify opportunities.<br>We have implemented systems to monitor and reduce the environmental impact of our operations and ensure compliance with environmental legislation.<br>For information on our environmental and climate progress, see pages 40 to 51. |
| **Macro-economic/Geopolitical conditions** | | | ↑ Risk increasing |
| **The effect of the difficult global macro-economic situation, rising cost inflation and the ongoing impact of the war in Ukraine and the Middle East is predicted to heavily impact trading. The broader global political situation is also something that we monitor.** | Changing geopolitical situations, in particular the effect of tensions in various parts of the world, have resulted in greater global volatility. | Political dynamics, which are outside of our control, are driving economics which are likely to have a lasting effect on the global economy. | We have continued to build scale and diversification through our expanded product offerings and geographic reach.<br>Regular management reviews monitor financial results, end markets, alternative product supply arrangements and competitor behaviour. |

# Principal Risks and Uncertainties continued

At present, there continues to be a heightened level of macroeconomic uncertainty relating to cost inflation leading to rising prices, which has been exacerbated by the war in Ukraine and the Middle East. We understand the short-term risks and impacts, and we have the right teams, governance, innovative products and strategies in place to be able to ride out the current storm. The longer-term impacts remain uncertain and we continue to monitor the associated risks closely and respond accordingly.

Save for business strategy development and implementation all of our principal risks have increased this year as a result of the impact of the external macroeconomic and geopolitical situations on trading conditions. We a knock–on effect on each of our principal risks, in particular the pressure they place on our supply chains. A deep dive of the Product Supply risk was discussed at the February 2023 Board meeting and a review of the implications of manufacturing in China is provided as a case study of the Board's s.172 application on page 63.

## Changes to Risk Scores vs. Prior Year

### Information security, data privacy, business continuity and cyber risks

↑ Risk increasing

Organisations are becoming more vulnerable to cyber threats due to the increasing reliance on computers, networks, programs, social media and data globally. A relatively small data breach or a common cyber attack has a massive negative business impact. Whilst the measure we are taking to ensure our cyber security programme increases each year we, along with many other businesses, are finding that the frequency and sophistication of cyber security incidents is increasing.

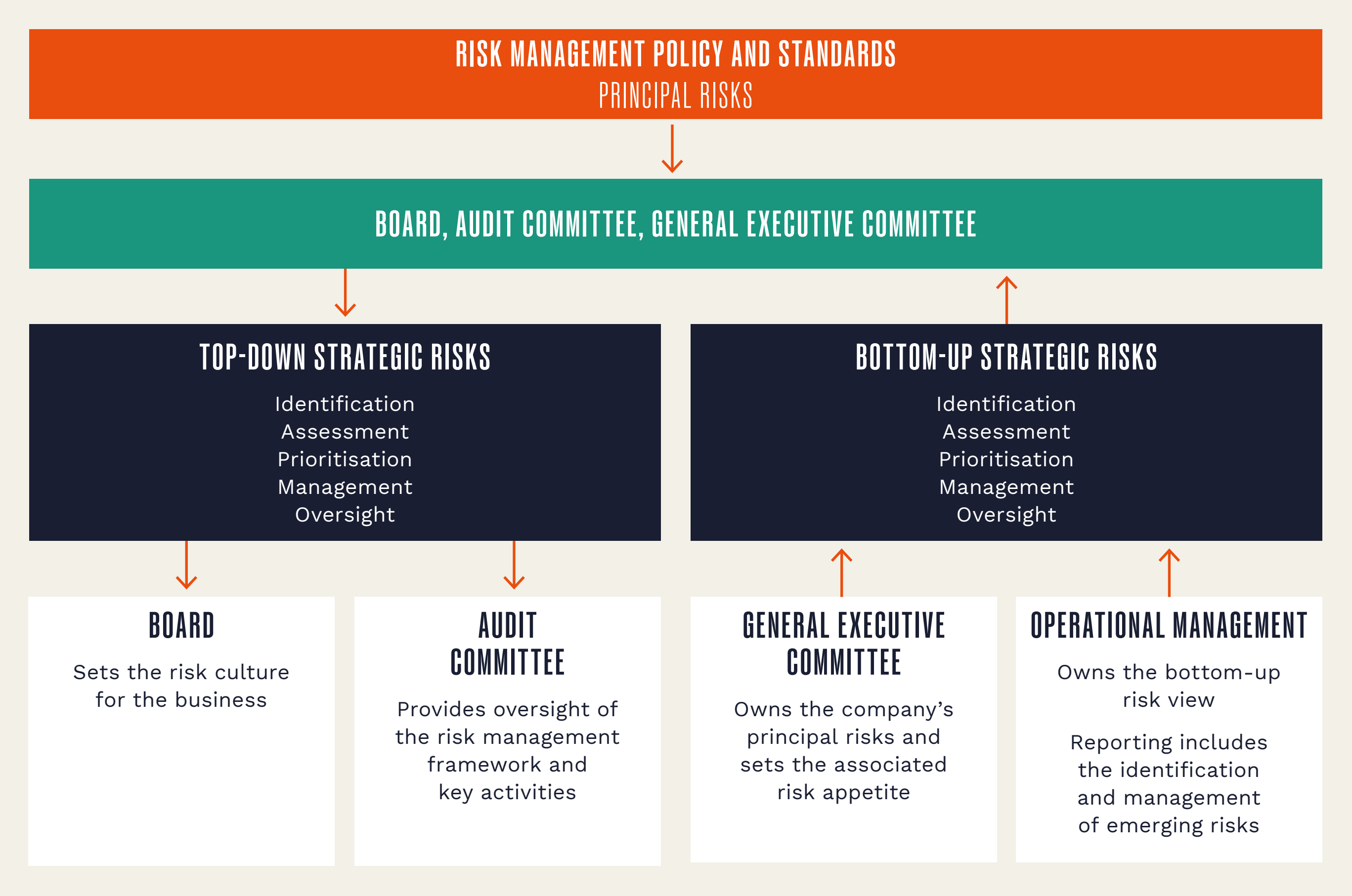
### Product innovation, Product supply, People and Macro-economic/ geopolitical conditions

↑ Risks increasing

There is a heightened level of macroeconomic uncertainty relating to cost-inflation leading to rising prices which has been exacerbated by the wars in Ukraine and the Middle East. These are impacting our customers' disposable income, thereby changing the products they buy and increasing our operational costs which, together, affects several of our principal risks.

The supply chain risks facing the Group have again changed shape over the last year. The global business climate is increasingly uncertain, with manufacturers facing a myriad of challenges, including high energy prices and unexpected fluctuations in raw material costs as well as the continuing wars in Ukraine and the Middle East and rising geopolitical tensions disrupting global supply chains. Many raw materials are becoming harder to secure and their fluctuating costs can have a significant impact on the profitability and pricing of products. As the various factors are not expected to be alleviated in the short term, this will remain a significant risk for the Group.

When it comes to geopolitical tensions we recognise that there is no single solution but this does not mean that doing nothing is our response. Instead, we will diversify our strategies to help build a safety net. For examples, boosting our manufacturing capabilities in order to ensure we can quickly scale up production should a location become unviable, putting ourselves at the forefront of developments in the cyber world, not just attacks but also, how we might harness AI to protect us.



RISK MANAGEMENT POLICY AND STANDARDS
PRINCIPAL RISKS

BOARD, AUDIT COMMITTEE, GENERAL EXECUTIVE COMMITTEE

TOP-DOWN STRATEGIC RISKS
Identification
Assessment
Prioritisation
Management
Oversight

BOTTOM-UP STRATEGIC RISKS
Identification
Assessment
Prioritisation
Management
Oversight

BOARD
Sets the risk culture for the business

AUDIT COMMITTEE
Provides oversight of the risk management framework and key activities

GENERAL EXECUTIVE COMMITTEE
Owns the company's principal risks and sets the associated risk appetite

OPERATIONAL MANAGEMENT
Owns the bottom-up risk view

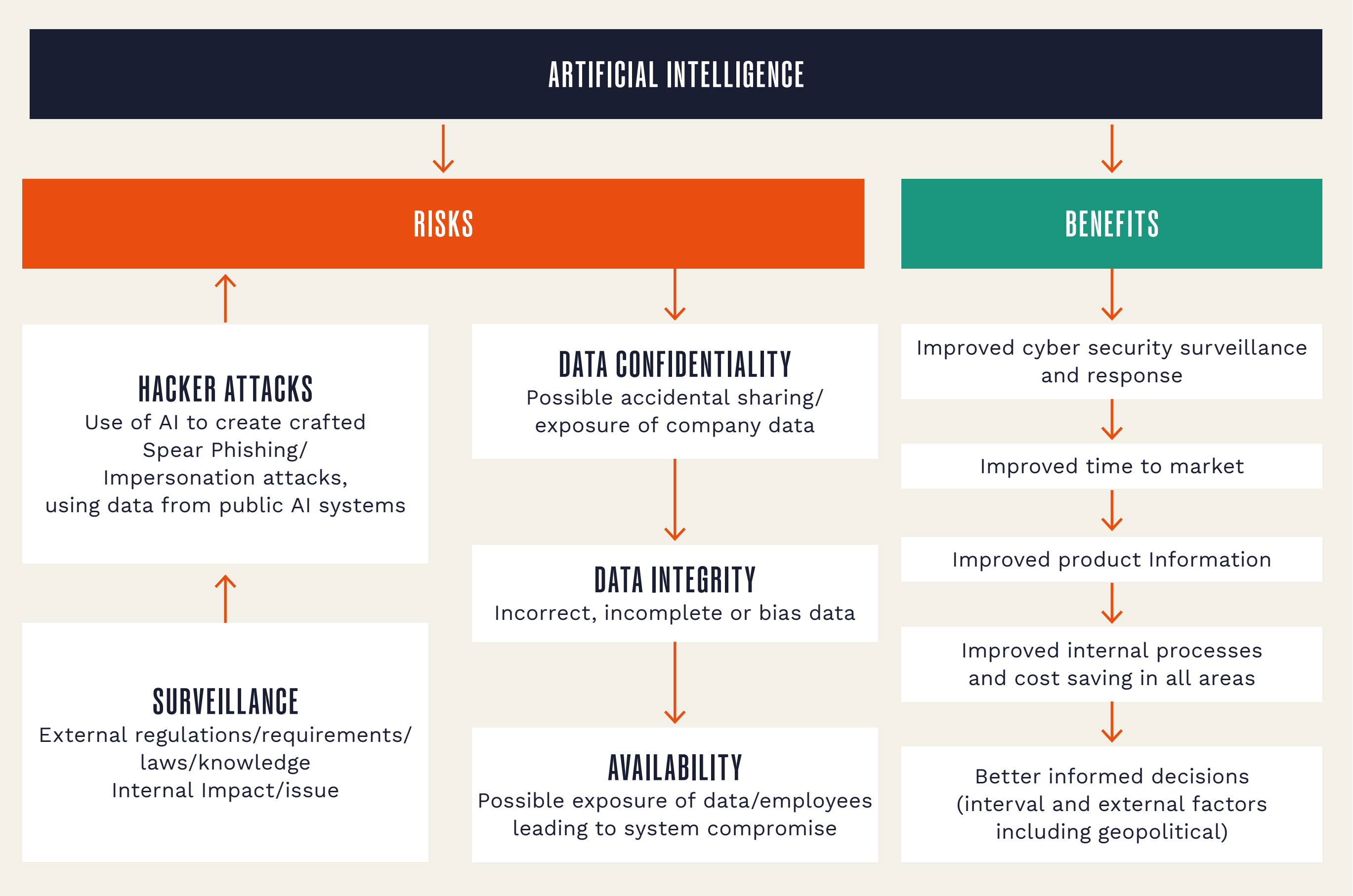
Reporting includes the identification and management of emerging risks

## Emerging Risk Themes

Emerging risk themes are reported alongside our principal risks. We conduct horizon scanning to enable a medium- and longer-term view of potential disruptors to our business. As part of our risk assessment process, we analyse internal and external sources of emerging risk themes through review of leading external publications including attending industry seminars and forums, gathering insights via top-down and bottom-up risk workshops with internal stakeholders, and seeking professional consultation where required. We are currently tracking several emerging risk themes such as political, economic, technological, environment and talent. An example of an emerging theme that has the potential to impact our position and requires a plan action is set out below:

| Identified Risk | Group's view | Actions we will take |
|---|---|---|
| **AI**<br>**Widely flagged as a strategic risk** | For the Group it is seen not only as a risk, but also as an opportunity that can offer advantages in product development, such as efficiency, consistency and accuracy of processing large amounts of data quickly. | We will look to harness AI to drive operational and cost efficiencies, as well as strategic business transformation programmes where the opportunity arises, whilst being aware of the growing amount of harmful misinformation and increasingly sophisticated cyber attacks. |

Ultimately, we believe that collaboration with our business partners is key to navigating these uncertain times.



ARTIFICIAL INTELLIGENCE

RISKS

BENEFITS

HACKER ATTACKS
Use of AI to create crafted Spear Phishing/ Impersonation attacks, using data from public AI systems

SURVEILLANCE
External regulations/requirements/ laws/knowledge
Internal Impact/issue

DATA CONFIDENTIALITY
Possible accidental sharing/ exposure of company data

DATA INTEGRITY
Incorrect, incomplete or bias data

AVAILABILITY
Possible exposure of data/employees leading to system compromise

Improved cyber security surveillance and response

Improved time to market

Improved product Information

Improved internal processes and cost saving in all areas

Better informed decisions (interval and external factors including geopolitical)

# Principal Risks and Uncertainties continued

## CFD Strategy: Risks from Future Climate Change Scenarios

**Leading on from Climate Change in the Risk Register, and as part of the requirements for the UK's climate-related financial disclosures (CFD), we have included our seven climate-related risks & opportunities, mapped against three future climate scenarios.**

These risks and opportunities will be reviewed next year as part of a two-year cycle to identify any new material issues through a process outlined on page 57. This year, we have chosen to focus on the risks associated with Increased Storm Intensity, and revised our time horizons to align with our Environmental Strategy.

We have assessed that our exposure to climate change carries a low risk in the short term, and we continue to monitor how this changes over time.

We also see high level trends of high physical risks in high warming scenarios, and higher transition risks in low warming scenarios.

### Short term (up to 2030)

We are aiming to have Carbon Neutral products by 2030, so are mirroring this timeframe.

### Medium term (up to 2050)

This is the target year for the UK to achieve Net Zero as part of the Climate Change Act.

### Long term (up to 2080)

Our long-term timeframe considers 2080 for now to match the increased storm intensity modelling work done this year.

## Selected Climate Scenarios:

**Best Case:**
1.5°C scenario: IEA Sustainable Development Scenario

**Paris Agreement:**
2°C scenario: IEA Stated Policies

**Worst Case:**
4°C scenario: NGFS Current Policies

More information on scenarios is in our 2023 Environment and Climate Report.

## Climate-related Risks and Opportunities

| Risk/Opportunity | Scenario | 2030 | 2050 | 2080 | Our Management and Mitigation Approach |
|---|---|---|---|---|---|
| **Qualitative Transition Opportunity:** Movement towards Circular Economy Principles<br>Medium-Term Risk | 1.5 | Low | High | High | Our products are easily disassembled and recycled overall, and we are already working on using more recycled content upfront. Combined with our existing ecommerce trade-in schemes, a thriving 2nd hand market and ongoing research into new materials, we feel well placed to embed ourselves within the circular economy. |
| | 2 | Low | High | High | |
| | 4 | Low | Medium | Medium | |
| **Qualitative Transition Opportunity:** Low-Carbon Products<br>Medium-Term Risk | 1.5 | Medium | High | Medium | Using lifecycle assessments, we have a good understanding of our environmental hotspots. Over the next few years, we will complete all of the relatively easy swaps to low-carbon raw materials, while building out our range of parametric design tools that will monitor exposure to climate-related risks. |
| | 2 | Low | Medium | Low | |
| | 4 | Low | Low | Medium | |
| **Qualitative Transition Opportunity:** Increase in Consumer and Investor Climate Consciousness<br>Medium-Term Risk | 1.5 | Medium | High | Medium | Music Technology broadly lags the wider electronics industry on the environment and climate, so we reference against the biggest tech companies that are leading here. We are sharing more environmental data with customers, with investors and key shareholders already engaged with this topic. |
| | 2 | Low | Medium | Medium | |
| | 4 | Low | Low | Medium | |
| **Qualitative Transition Risk:** Mineral Commodity Shifts<br>Medium-Term Risk | 1.5 | Low | High | Medium | We continually look for alternative materials that are less exposed to risks of climate change. Rare-earth magnets are one example used in loudspeakers where we currently have no long term solution, which will be in increased demand from renewable energy production and automotive in the future. |
| | 2 | Low | Medium | Medium | |
| | 4 | Low | Low | Medium | |
| **Quantitative Physical Risk:** Increased Storm Intensity<br>Long-Term Risk | 1.5 | Low | Low | Low | It is our assessment that the risks posed directly to our supply chain and offices is low overall, for more information see page 41. |
| | 2 | Low | Low | Low | |
| | 4 | Low | Low | Medium | |
| **Quantitative Transition Opportunity:** Shipping & Logistics<br>Medium-Term Risk | 1.5 | Low | High | High | As part of reviewing the Increased Storm Intensity, we also assessed the potential impact of our key shipping routes. While we have focused on the Physical risks this year, we expect the Transition risk to be more significant long term. |
| | 2 | Low | Medium | Medium | |
| | 4 | Low | Low | Medium | |
| **Quantitative Physical Risk:** Climate Induced Conflict<br>Short-Term Risk | 1.5 | Medium | Medium | Low | There is little we can do to mitigate Climate Induced Conflict, except monitor existing geopolitical issues and try to establish how these will be impacted by Climate Change. See page 41 for more detail. |
| | 2 | Medium | Medium | High | |
| | 4 | Medium | High | High | |

**Key – Likelihood of impacting Profit by more than 10%**

**Low** = Not Material <10% Chance
**Medium** = Potentially Material ~50% Chance
**High** = Likely to be Material >75% Chance

## Quantitative Climate-related Risks and Opportunities

To enable us to include our first quantitative data against the CFD, we collaborated with consultants at McGrady Clarke to look in detail at the risks associated with Increased Storm Intensity that links with three of our existing climate-related issues, across all three timeframes:

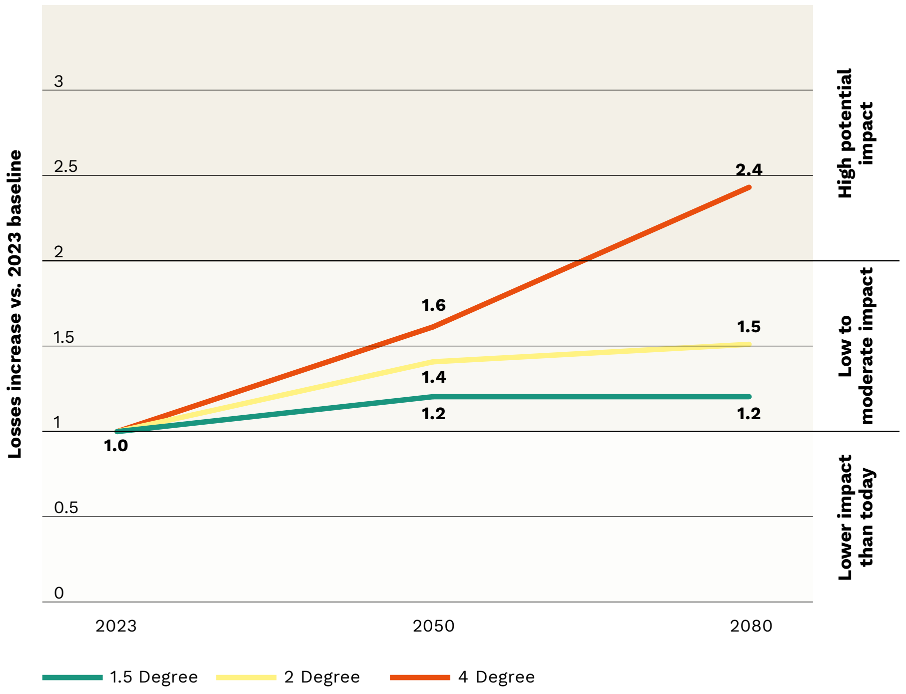
- **Increased Storm Intensity** – By directly modelling the impact from increased wind speed in extreme weather events on our key manufacturers in China, warehouses in the UK, Germany and US, and global offices as shown on pages 8 to 9.
- **Shipping & Logistics** – By reviewing the impact of extreme weather events on important shipping routes from Hong Kong to the UK, and Malaysia to the US.
- **Climate Induced Conflict** – Broadly highlighting which areas will experience more intense storms and combining with existing geopolitical issues for a qualitative assessment.

We have decided that increases of less than 2x today's modelled baseline impact are not significant enough to require us to take immediate action but above this threshold could cause significant impact.

It should also be noted that while we looked at our whole supply chain, the chances for storms in one year to impact all manufacturing sites, shipping routes and warehouses remains extremely low as there is a wide geographical distribution of our production facilities and contract manufacturers. Due to the concentration of resources in one location, an intense storm impacting a key manufacturing site would be most material to the Group (see 'Illustration of Storm Impact Worst Case').

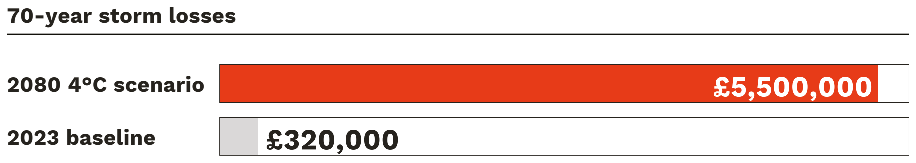
The research here showed that, in all future climate scenarios, average annual losses increase, up to a maximum of 2.4x the losses compared with today's modelled baseline by 2080 in the 4°C scenario, compared with 1.5x and 1.2x in the 2°C and 1.5°C scenarios, in line with wider consensus that we need to limit global temperature rises to 2°C to avoid the worst effects of climate change.

From this, we can conclude that, while the impact will go up in all scenarios, our supply chain is well shielded from the worst effects of increased storm intensity except in the 4°C scenario in 2080, with the losses exceeding the 2x threshold. We will continue to monitor the latest climate science and update our assessment if the consensus shifts.



## Illustration of Storm Impact Worst Case

To show the impact in the 2080 4°C scenario, we have calculated the potential losses from a single 1 in 70-year storm on our key manufacturing sites – a worst case scenario. The result is potential value losses of £5.5 million compared with £320k with today's baseline (modelled as an estimate of what we would expect average losses to be as opposed to actual losses), illustrating how the intensity of this type of storm will increase significantly in the future. 2080 is, however, a long way off, and if the 4°C scenario looks increasingly likely, we will take action to adapt and mitigate these potential losses.



## Climate Induced Conflict

Though not directly assessed as part of the increased storm intensity modelling work, our general view is that Climate Induced Conflict will be most likely to start when the effects of climate change are combined with existing geopolitical tensions.

We expect the physical effects of Increased Storm Intensity to be most felt in South East Asia, and when combined with the existing geopolitical tensions in this region and our main manufacturing base, this has the highest level of risk in the highest warming scenario.

# BEING A GREAT PLACE TO WORK

Environmental, Social and Governance ('ESG') continues to progress as an increasingly embedded part of our organisation. Our people are passionate about the issues covered, and we aim to become leaders in these areas.

**Our ESG Governance Structure**

ESG & CLIMATE CHANGE (ESGCC) COMMITTEE
Chaired by Sally McKone, CFO

ENVIRONMENT & CLIMATE
Andy Land, Global Head of Sustainability

SOCIAL
Alicia Cousins, Chief People Officer

GOVERNANCE
Francine Godrich, Group General Counsel

GREEN TEAM MEMBERS

GLOBAL HR TEAM

COMPLIANCE TEAM AND GROUP RISK MANAGEMENT

## ESG Governance

Our Environmental, Social, Governance & Climate Change (ESGCC) Committee meets monthly and was set up in 2022 to serve as a central point for a range of reporting requirements as well as proactive actions we're taking. In 2023, this has been expanded to also include climate change and fully incorporate the Task Force on Climate Related Financial Disclosures (TCFD) Climate-related Risks and Opportunities review.

Andy Land, our Global Head of Sustainability, represents Environment & Climate, joined by Alicia Cousins, Chief People Officer representing Social, and Francine Godrich, Group General Counsel, representing Governance, who also manages the Group risk register.

With Sally as Chair of the ESGCC Committee, we also ensure that our actions are fully integrated into our financial planning and decision-making processes and are at the most senior level of the Company, which is crucial for achieving our long-term goals.

## Timeline of ESG at Focusrite

ESG has been a natural evolution for us, combining a range of existing functions with the Environmental movement that started originally as an employee led grassroots meeting.

**2021**

- Andy Land becomes the first full time Global Head of Sustainability at the Group
- ESG Materiality Assessment is conducted for the first time – See our FY21 Annual Report
- ESG Committee is formed
- Green Team formalised comprising senior stakeholders around the Group
- Diversity & Inclusion ('D&I') Workstreams set up

**2022**

- Alicia Cousins becomes our first Chief People Officer
- TCFD 'In Progress' report
- First time publishing our complete Scope 1, 2 and 3 GHG emissions, with Scope 1 and 2 Carbon Neutral

**2023**

- ESG Committee expands to include climate change
- First Mandatory CFD Report and our first accompanying Environment and Climate Change report
- Improving our Scope 3 GHG emissions disclosure to be calculated with Lifecycle Assessments

**2024**

- Plan to submit data to the Carbon Disclosure Project ('CDP')

**2025**

- Plan to commit to Science Based Targets ('SBTs') for decarbonisation

# MAKING MATERIAL PROGRESS

**Andy Land**
Global Head of Sustainability

**Scope 1 (Net)**
0 tCO₂e

**Scope 2 (Net)**
0 tCO₂e

**Scope 3 (Net)**
114k tCO₂e

**Lifecycle Assessments Completed**
60

**Trees Planted**
85.6k

This year, the convergence of climate change and an El Niño event have highlighted the pressing environmental challenges we all face.

Our first year of mandatory CFD compliance is against this backdrop of increasing extreme weather events due to climate change, which is why we have chosen to focus on the increase in storm intensity for our first quantitative assessment. In addition to this, we have achieved another significant milestone this year, having designed a bespoke product lifecycle assessment database that we are using to calculate our emissions for the first time. This essential resource shows the detail of our environmental hotspots so we can prioritise reducing our environmental footprint as we work towards setting a Net Zero target over the next few years.

| | | |
|---|---|---|
| **Our Environmental Strategy and Q&A** | Pages 44-45 | How we're aligning our initiatives to reduce our environmental impact, and targeted questions about our most significant initiatives. |
| **Recycled Content Timeline** | Pages 46-47 | Hardware products are the biggest contributor to our footprint, we've included a summary of how we're implementing recycled materials in production. |
| **UK's CFD** | Page 48 | Our first year of mandatory UK Climate-related Financial Disclosures looking at the risks and opportunities from a changing climate. |
| **Environmental Metrics and Targets** | Page 49 | Net Zero by 2050 is the law in the UK, we're looking at how we're measuring progress towards this to ultimately achieve ahead of this date. |
| **Environmental Disclosures** | Pages 50-51 | Our full Scope 1,2 and 3 GHG Emissions disclosures along with SECR. |

## Our Environmental Strategy

| | Carbon Neutral Business Operations | Focus on Products | Lead the Industry |
|---|---|---|---|
| **Target** | Ensure our internal business operations are Carbon Neutral by the end of FY24. | Reduce and neutralise product GHG emissions to be Carbon Neutral by 2030. | Commit to SBTs for decarbonisation by 2025 at the latest, and then set a Net Zero Target. |
| **Focus** | Our *Internal* Operations and our offices. | Our *External* Operations and what we send out into the world. | The wider Music Technology *Industry.* |
| **FY23 Update** | We are nearly finished switching to 100% renewable energy in our offices and are repeating verified offsets of residual Scope 1 and 2 emissions this year. | Work continues to reduce the footprint of our products, and our now verified in-house lifecycle assessments are giving engineers the data they need to make the right changes. | We continue to make increased disclosures on our environmental work, and are set to start the SBT process in the coming financial year. |

# Q&A WITH ANDY LAND

## What was your journey to becoming Global Head of Sustainability at Focusrite?

It's now been two years that I've been doing this role full time, but my time at Focusrite extends back to 2010 when I joined the Service Department. The hands on experience I gained back then, fixing products to a component level, efforts to reduce failure rates, combined later with leadership experience running the department, put me in a strong position to advocate for a full-time sustainability role. In just the last two years, we've focused on building the fundamentals; we knew there were upcoming regulatory changes and that hardware would be the majority of our footprint, to a position now where we are complying with a range of environmental legislation and have a major internal database that is the basis of our carbon accounting.

## How is Environmental Sustainability embedded in the operations and culture?

We've put Environmental Sustainability straight into a range of existing structures, as well as creating a few new ones where needed. Most significant is our ESGCC Committee formed in 2022, where elements of the TCFD are reviewed monthly with our CFO chairing, and Environmental Metrics are part of the product design process now. This goes along with regular updates at company meetings, face-to-face interaction at offices around the Group, and monthly internal newsletters resulting in employee feedback which consistently ranks our work on the environment as one of the highest scores.

## How is the Group approaching the challenge Net Zero presents?

Net Zero is something we're committed to, and I believe it's important to explain that even though we don't yet have a target year, even if we did have one, we probably wouldn't be doing anything different. We know we need to reach Net Zero, and our people know the importance of this, but until we have conducted the research to definitively say when we will achieve this, announcing a target year without having gone through the SBTs method would not be as meaningful. Net Zero for us is also completely tied to the emissions of our products, which account for close to 99% of our total footprint, and our product lifecycle assessments have been an essential step to understanding how we will track our performance against an SBT decarbonisation trajectory towards Net Zero.

## How do you align your business to the circular economy?

All manufacturers should embrace the circular economy, using recycled materials in their products and making them easily repairable and recyclable at end of life. Music technology products generally have a long lifespan and a thriving second-hand market, and our products can be serviced easily, which makes them also easily recyclable. This, coupled with the use of recycled materials in production, positions us well in the circular economy.

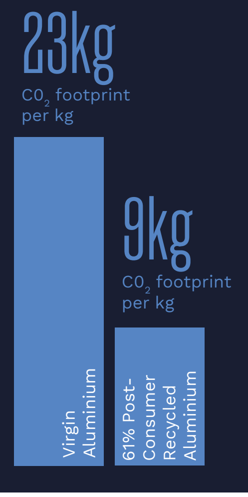
## How have you approached this first year of mandatory CFD?

We started looking at the CFD/TCFD back in 2021, conducting an initial disclosure of our work so far in last year's Annual Report. At the time, we had seven identified climate risks or opportunities, three of which had a qualitative assessment, and a brief outline of our governance, strategy and metrics and targets. This year, we've built on this work, adding more detail on all areas, including a quantitative assessment of the risk posed by Increased Storm Intensity, which has also proved helpful when looking at Logistics and Climate Induced Conflict. We've also included a deeper dive into our work here in our standalone Environment and Climate report, which contains additional non-material content, keeping the highlights in the Strategic Report this year.

## What are the priorities for the year ahead?

Lifecycle Assessments (LCAs) and the CFD were the focus for FY23. The work to reduce the footprint of our products is becoming business as usual, so this continues in the background, as do new product LCAs. Now my focus is shifting to the next phase in our strategy, setting SBTs for decarbonisation. We have said that by 2025 at the latest we will have committed to this, but the aim has always been to get this done sooner if possible. I believe our data is now ready to set these targets towards Net Zero.

## ADAM Audio Post-Consumer Recycled Aluminium



Aluminium is an essential material for many of our products, particularly so in loudspeakers where the main basket structure of a moving coil driver needs to be lightweight, strong and non-magnetic. This year, we have replaced virgin aluminium in the ADAM Audio A Series with a 61% post-consumer recycled aluminium, the first time we've used aluminium from this source across the Group, and a change that comes with no downsides to product performance.

We can now verify the results of changes like this with our in-house data; the Carbon Dioxide Equivalent footprint of this grade of aluminium is 2.56x lower per kg of material, and of the estimated 8,857kg of aluminium used in the A Series drivers annually, 5,503kg is now from post-consumer sources, an important step as we ultimately aim for 100% post-consumer recycled materials in our products across the Group.

# **Environmental, Social and Governance – Environment** continued

## RECYCLED CONTENT TIMELINE

In 2019, we started implementing recycled materials for the first time, and since then have been making this research a standard part of new product designs.

With each recycled material or bio-based alternative that we find, our confidence grows. Once we have proven a material at mass production, existing products using the same material can switch across, ultimately lowering our GHG emissions.

We have included a timeline of our progress against metal and plastic, two of our highest priority material types found in everything we manufacture.

## Post-Industrial vs. Post-Consumer

### Post-Industrial Recycled (‘PIR’)

Material sourced from industrial sources, primarily offcuts or defective components from another production line. These materials do not have lower GHG emissions.

The only PIR material we have used is aluminium, where we worked with our metal vendor to identify a waste stream that would otherwise not be taken advantage of.

VS

### Post-Consumer Recycled (‘PCR’)

Material recycled from consumer waste, and turned back into usable raw materials.

These materials do have the emissions reductions we are looking for to reach Net Zero and, while this will be challenging, we are aiming to ultimately use only PCR materials in our products.

**Key**

🟢 Implemented Recycled Content 🟡 Implementing Recycled Content 🟠 Virgin Material Only

## 2019

### METAL

🟡 **Aluminium**
Used in multiple instances where lightweight metal is required.

Samples are received of PIR aluminium for Focusrite Scarlett, with research ongoing to maintain tolerances and colour matching.

🟠 **Steel**
Used for rack-mounted products, and high-strength structural components.

🟠 **Rare Earth Elements**
Neodymium is essential for lightweight high-performance loudspeaker drivers.

### PLASTIC

🟠 **Acrylonitrile Butadiene Styrene (‘ABS’)**
A flexible high-quality plastic that is easily moulded.

🟠 **High-Impact Polystyrene (‘HIPS’)**
A lightweight alternative to ABS.

🟠 **Polyethylene (‘PE’)**
Used for product packaging.

🟠 **Expanded Polyethylene (‘EPE’) Foam**
Foam used in product packaging.

## 2020

🟡 **Aluminium**
Focusrite Scarlett starts using PIR aluminium at mass production.

🟠 **Steel**

🟠 **Rare Earth Elements**

🟠 **Acrylonitrile Butadiene Styrene**

🟠 **High Impact Polystyrene**

🟠 **Polyethylene**

🟠 **Expanded Polyethylene Foam**

## 2021

🟡 **Aluminium**

🟡 **Steel**
Research continues into recycled options for Steel. An early 5% PCR alloy has been found, but we are aiming higher.

🟠 **Rare Earth Elements**
The technology has advanced, with some companies producing prototype loudspeakers with high-performance ferrite magnets.

🟡 **Acrylonitrile Butadiene Styrene**
Testing starts of samples in 55% and 85% PCR ABS.

🟠 **High Impact Polystyrene**

🟡 **Polyethylene**
Research begins into bio-based bags and foams that could reduce our need for PE entirely.

🟡 **Expanded Polyethylene Foam**
Research begins on eliminating EPE foam entirely, switching to pressed pulp or folded card designs in packaging.

## 2022

🟡 **Aluminium**

🟡 **Steel**

🟠 **Rare Earth Elements**
Development of the ferrite-based magnets progresses to loudspeaker prototypes.

🟢 **Acrylonitrile Butadiene Styrene**
Vocaster is the first to use 85% PCR ABS in mass production.

🟠 **High Impact Polystyrene**

🟢 **Polyethylene**
Vocaster is the first product to use a starch-based bag around the product.

🟢 **Expanded Polyethylene Foam**
Vocaster trials a Bio-Based foam alternative to EPE Foam.

## 2023

🟢 **Aluminium**
ADAM Audio’s A Series starts using 61% PCR aluminium for heatsinks and driver baskets in mass production.

🟡 **Steel**

🟠 **Rare Earth Elements**

🟢 **Acrylonitrile Butadiene Styrene**
ADAM Audio continues research into how we can use this material in larger products.

🟡 **High Impact Polystyrene**
Samples are received in 75% PCR HIPS material for use on future product lines.

🟢 **Polyethylene**
Focusrite Scarlett Gen 4 follows Vocaster with starch-based bags.

🟢 **Expanded Polyethylene Foam**
Paper-based alternatives to foam are tested.

# Environmental, Social and Governance – Environment continued

## Compliance Statement: UK Climate-related Financial Disclosures ('CFD')

We have included in this report a response against each of the four recommendations and 11 disclosures set out by the Task Force on Climate-related Financial Disclosures (TCFD), aligned with the UK's CFD for our financial year ended 31 August 2023.

To assess our progress towards a high-quality TCFD report, we have undergone an external review with McGrady Clarke of the work done in our FY22 Annual Report, who have provided guidance on how to improve every aspect of our reporting.

Scan the QR Code to download our 'Environment and Climate Report' containing additional non-material content

| TCFD Area | Disclosure | | Applicable Section |
|---|---|---|---|
| **Governance:**<br>Disclose the organisation's governance around climate-related risks and opportunities. | A | Describe the Board's oversight of climate-related risks and opportunities. | Governance: Pages 56-57 |
| | B | Describe management's role in assessing and managing climate-related risks and opportunities. | Governance: Pages 56-57 |
| **Strategy:**<br>Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material. | A | Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term. | Risk Management: Pages 40-41 |
| | B | Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning. | Risk Management: Pages 40-41 |
| | C | Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario. | Risk Management: Pages 40-41 |
| **Risk Management:**<br>Disclose how the organisation identifies, assesses, and manages climate-related risks. | A | Describe the organisation's processes for identifying and assessing climate-related risks. | Risk Management: Pages 36-37, 39 |
| | B | Describe the organisation's processes for managing climate-related risks. | Governance: Page 57 |
| | C | Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management. | Governance: Page 57 |
| **Metrics and Targets:**<br>Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material. | A | Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process. | Environmental Metrics and Targets: Page 49 |
| | B | Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 GHG emissions, and the related risks. | Environmental Disclosures: Page 50-51 |
| | C | Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets. | Environmental Metrics and Targets: Page 49 |

## Our TCFD Journey

In this current year we have aimed to provide a complete TCFD report, providing detail against each of the categories. It is recommended that companies aim for steady improvement with TCFD reports each year, aiming for a 'Gold Standard' disclosure over time. Our timeline is summarised here, aiming for FY27 at the latest to achieve this ideal, fully aligned and (where possible) quantitative disclosure.

**Initial Non-Mandatory Disclosure**

Conducted an initial disclosure, with more detail required to improve the quality in all categories.

Qualitative assessment only.

**Mandatory CFD Disclosure**

Increased the level of detail against all categories.

Conducted first quantitative analysis of impacts from increased storm intensity.

**Improvement Period**

Aiming for steady improvement in each category.

Add quantitative analysis of remaining climate-related risks and opportunities.

**Gold Standard Disclosure**

Achieve a highly details and high-quality, full quantitative assessment where data is available.

## Environmental Metrics and Targets

Being a UK-based company, we are committed to achieving Net Zero status by 2050 at the latest, in line with the UK Climate Change Act. This is our target too, and we are establishing how quickly we can achieve this ahead of schedule.

Our aim is therefore not to set an arbitrary Net Zero target year until we have gone through the Science Based Targets application process by 2025 at the latest, and instead setting carbon reduction metrics and targets to plan for long-term success.

Our progress towards meeting Net Zero will follow the standard methodology, tracking our **absolute GHG Emissions** across Scopes 1, 2 and 3, and using **GHG Emissions intensity** per £m Revenue as the key KPI for tracking reductions. We will be aiming for approximately a 4.2% annual reduction, from a baseline no earlier than 2015.

We are committed to measuring our emissions in detail, and this year we are transitioning to a more comprehensive LCA-based approach for our hardware products to ensure that we are capturing emissions from all stages of our products' lifecycles, including production, transportation, use, and end of life.

By taking this approach, we can gain a better understanding of our emissions profile and identify areas where we can take action to reduce our environmental impact. We are actively exploring opportunities to reduce our GHG emissions, including investing in renewable energy, increasing energy efficiency, and improving our supply chain sustainability. We are committed to reporting on our progress towards these goals on a regular basis, and to working towards a Net Zero emissions target as soon as possible.

We have been tracking our energy usage and associated emissions for the Group since 2020 as part of the government policy Streamlined Energy and Carbon Reporting ('SECR'). Our 2023 SECR Report can be found on page 51.

**Intensity Metrics:**

**41kg**
**Average Upstream Product kg CO₂e**

**32kg**
**Average Downstream Product kg CO₂e**

**Upstream carbon: from product manufacturing**

**Downstream carbon: from product lifecycle once sold**

**639t**
**tCO₂e per £m Revenue FY23**

**629t**
**tCO₂e per £m Revenue FY22**

## Non-financial and sustainability information statement

We are now in scope of the UK's Climate-related Financial Disclosures (CFD) framework (see page 48), aligned with the Task Force on Climate-related Disclosures. In meeting the requirements of the CFD we have concluded that our disclosures are also consistent with the TCFD recommended disclosures.

## Risks to Metrics Links

As this is the first year of developing a high quality disclosure, we are still developing the metrics for each identified climate-related risk and opportunity. However, GHG emissions are used as the metrics for tracking progress against:

- Movement towards Circular Economy Principles
- Low Carbon Products

## Lifecycle Assessment Peer Review

To ensure the credibility of our reported GHG emissions for hardware products across their lifecycles, EuGeos, a specialist lifecycle assessment consultancy, has conducted a peer review. This involved:

- a review to confirm that appropriate and reasonable data has been selected by Focusrite.
- a review to confirm that the methods applied in the calculations are scientifically and technically valid; and
- a review of documentation on our internal data flow, architecture and calculations to confirm that the method used to capture the relevant lifecycle data and calculate the product-related emissions is internally consistent, and that limitations can be identified.

## Continual Improvement of our Disclosures

Our FY22 Annual Report established that the emissions associated with our hardware products represent the majority of our total emissions, and Scope 3 emissions for us were 99.87% of the total. The LCAs we are conducting are down to component level, and this data now forms the basis for our GHG emissions disclosures, and are an internal asset for product design.

It should be noted, however, by moving towards primarily LCA-based calculations, the methodology between FY22 and FY23 Carbon Disclosures has changed, meaning direct comparisons cannot be made – A decision we were aware of in FY22 but chose to disclose our work so far. It should be noted, too, that the methodology we are following will continue to be refined over time. To provide better context here, we have included the equivalent FY22 LCA-based emissions where a direct comparison can be made (see page 50, Environmental Disclosures).

# Environmental, Social and Governance – Environment continued

## Environmental Disclosures

Our complete Scope 1, 2 and 3 Carbon Dioxide Equivalent footprint is summarised here. All units are gross tonnes of carbon dioxide equivalent (t$CO_2$e) unless stated otherwise. For Scopes 1 and 2, we have maintained Carbon Neutral status for a second year as a result of switching to renewable energy and purchasing verified carbon offsets to account for residual emissions.

Scope 3 is the majority of our gross emissions, with *Purchased Goods & Services*, and *Use of Sold Products* being the two largest categories as these are associated with our hardware products. This year we have calculated all our product emissions with LCAs, which has resulted in a significant change to the methodology. To provide a direct comparison, we have included the FY22 values recalculated with the same FY23 methodology.

| Category | Metric | FY22 Value | **FY23 Value** | % of FY23 Gross $CO_2$e Footprint |
|---|---|---|---|---|
| Intensity Metrics | t$CO_2$e per Product Sold* | 0.059 | **0.066** | |
| | t$CO_2$e per £m Revenue* | 629 | **639** | |
| Scope 1 GHG Emissions | Total Scope 1 | 223 | **177** | 0.15% |
| | Total Scope 1 (Net) | (1) | **0** | |
| | Combustion of Natural Gas (location-based) | 189 | **153** | 0.13% |
| | Combustion of Natural Gas (market-based) | 0 | **4** | |
| | Transportation (excluding grey fleet) | 34 | **24** | 0.02% |
| | Scope 1 Carbon Offsets against Combustion of Natural Gas (market-based) and Transportation (excluding grey fleet) | (35) | **(28)** | |
| Scope 2 GHG Emissions | Total Scope 2 | 207 | **257** | 0.22% |
| | Total Scope 2 (Net) | (0) | **0** | |
| | Electricity (location-based) | 207 | **257** | 0.22% |
| | Electricity (market-based) | 125 | **152** | |
| | Scope 2 Carbon Offsets against Electricity (market-based) | (125) | **(152)** | |
| Scope 3 GHG Emissions | Total Scope 3* | 115,652 | **113,982** | 99.62% |
| | 01: Purchased Goods & Services* | 53,361 | **58,638** | 51.25% |
| | 02: Capital Goods | 197 | **207** | 0.18% |
| | 03: Fuel & Energy-related Activities | 100 | **51** | 0.04% |
| | 04: Upstream Transportation & Distribution* | 463 | **454** | 0.40% |
| | 05: Waste Generated in Operations | 11 | **11** | 0.01% |
| | 06: Business Travel | 215 | **1,014** | 0.87% |
| | 07: Employee Commuting | 202 | **716** | 0.63% |
| | 09: Downstream Transportation & Distribution* | 266 | **238** | 0.21% |
| | 10: Processing of Sold Products | 34 | **33** | 0.03% |
| | 11: Use of Sold Products* | 56,625 | **51,388** | 44.91% |
| | 12: End-of-Life Treatment of Sold Products* | 1,305 | **1,231** | 1.08% |
| Totals | Scope 1, 2 and 3* | 116,081 | **114,416** | 100% |
| | Scope 1, 2 and 3 (Net)* | 115,652 | **113,982** | |

* Indicates the FY22 value has been recalculated using the same methodology as FY23.

Note: Categories 08: Upstream Leased Assets, 13: Downstream Leased Assets, 14: Franchises and 15: Investments do not apply to the Focusrite Group.

Our emissions this year remain dominated by our hardware products, accounting for 96% of our Net GHG Emissions. The change in methodology from last year, being a combination of procurement, financial and activity-based calculations, now all replaced with LCAs, has resulted in a significant reduction in our total emissions compared with what we previously reported, but is marginally lower compared with FY22 when using the same methodology. Our total Scope 3 emissions to date have not yet been significantly impacted by changes we have been making to our hardware products, but we expect this to start filtering through as more products use recycled materials in mass production. In future years, we will also start to see the effects of increased renewable energy in grids around the world, resulting in steady reductions in the 'Use of Sold Products' category, and will also provide more detail on the 'Purchased Goods & Services' category, showing how we are planning to transition to a low-carbon world.

## SECR and Calculation Methodology

Our Streamlined, Energy and Carbon Reporting disclosure table is summarised here. All units are in tonnes of carbon dioxide equivalent (t$CO_2$e) unless stated otherwise.

Our Gross Scope 1 and 2 emissions remain a very small part of our total footprint, but having Carbon Neutral Internal Operations is a key part of our Environmental Strategy as these are operations under our direct control. As the Group has continued to grow, with the addition of Sonnox this year, and as our offices continue to be increasingly used after COVID-19, we have seen energy consumption and gross emissions rise; however, as shown in the Full Carbon Balance Sheet, actions taken to date have resulted in Carbon Neutral status across each of these scopes. With a new office for the Focusrite HQ in the UK, we are still gathering data on current consumption so we can make changes to energy efficiency in the future.

## Energy Efficiency Measures

In FY23, we installed LED lighting throughout the new Focusrite HQ and Martin Audio offices. The new Focusrite HQ is also now a shared building, relying on a centralised heating/cooling system. Occupying the full ground floor of a building partially buried into a hillside was one of the major positives from an energy efficiency perspective. The site is also well suited for PV solar, being south facing – an option we are continuing to review.

## Emissions Calculation Methodology

Our total Carbon Footprint Analysis has been assessed externally by McGrady Clarke based on information provided by Focusrite, and covers Scopes 1, 2 (as part of our Streamlined Energy and Carbon Report) and Scope 3. The reporting methodology involves usage of both 2023 DEFRA (Department for Environment, Food and Rural Affairs), and Ecoinvent 3.9.1 emissions factors.

This work is done in accordance with the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard' and in line with Defra's 'Environmental reporting guidelines: including Streamlined Energy and Carbon Reporting Requirements'. The SECR reporting period covers Focusrite PLC's operations from the 1 September 2022 to 31 August 2023 and our calculations are for Building-related energy (Natural gas consumption (Scope 1), purchased electricity consumption (Scope 2)), and Transportation (fuel combustion for business travel in company vehicles (Scope 1), EVs (Scope 2) and in employee vehicles reimbursed by Focusrite PLC (Scope 3)).

Reported emissions from Sonnox were calculated based on the length of ownership by Focusrite PLC following acquisition in December 2022 and associated emissions are for the period from 20 December 2022 to 31 August 2023. We have used the operational control approach to reporting boundaries.

For our Product Lifecycle Assessments, used as the basis for our Scope 3 Hardware Product GHG emissions reporting, these have been assessed externally by EuGeos, a specialist LCA consultant.

"Focusrite plc has a fundamentally sound and scalable method for calculating product-related environmental impacts including carbon dioxide equivalent emissions for annual reporting. In using the Ecoinvent database and the Product Environmental Footprint methods for Lifecycle Assessment calculations, Focusrite has built a technically sound base. As this system matures over time, there is scope to expand the reporting to meet the GHG Protocol Product Life Cycle Accounting and Reporting Standard fully, as well as other potential future reporting requirements."

**Chris Foster**
Director at EuGeos

| | **FY23: 1 Sep 2022 – 31 Aug 2023** | | | **FY22: 1 Sep 2021 – 31 Aug 2022** | | |
|---|---|---|---|---|---|---|
| **Reporting Period** | UK & Offshore | Global (exc. UK & Offshore) | Total | UK & Offshore | Global (exc. UK & Offshore) | Total |
| Emissions from Combustion of Gas (Scope 1) | **153** | **0** | **153** | 189 | 0 | 189 |
| Emissions from Combustion of Fuel for Transport Purposes (Scope 1) | **5** | **19** | **24** | 6 | 28 | 34 |
| Fugitive Emissions from Refrigerant Leakages (Scope 1) | **0** | **0** | **0** | 0 | 0 | 0 |
| **Total Scope 1 Emissions** – Emissions from activities which the Group owns or controls, including combustion of fuel & operation of facilities | **158** | **19** | **177** | 195 | 28 | 223 |
| **Total Scope 2 Emissions** – Emissions from purchase of electricity for own use and electric vehicles (location based) | **201** | **56** | **257** | 148 | 59 | 207 |
| **Total Gross Scope 1 & Scope 2 Emissions** | **359** | **75** | **434** | **343** | **87** | **430** |
| Other Indirect Emissions (Scope 3) – Emissions from business travel in rental cars or employee owned vehicles where the Group is responsible for purchasing fuel | **18** | **0** | **18** | 16 | 1 | 18 |
| **Total Gross Scope 1, 2 & 3 Emissions** | **377** | **75** | **452** | **359** | **88** | **447** |
| **Total Energy Consumption** (kWh) | **1,937,298** | **162,184** | **2,099,482** | 1,740,865 | 266,274 | 2,007,139 |
| **Intensity Metric (Gross Emissions):** t$CO_2$e per employee | | | **0.81** | | | 0.83 |

## Environmental, Social and Governance – Social

# CREATING A GREAT PLACE TO WORK FOR EVERYONE

**Alicia Cousins**
Chief People Officer

**Employee Headcount**

557

**eNPS Response Rate**

85%

### Our aim of creating a great place to work

We value the contributions that our employees make to the business and understand how critical they are to the success of the Group. We always aim high to be a preferred employer in our sector, and, as we strive for product excellence, we work hard to ensure our talent attraction process is the best it can be. After onboarding, employees find they can nurture their talent, develop and grow whilst having a platform to voice their opinions and engage with colleagues and management across the Group.

Retaining our skilled talent is key to our success and we continually strive to develop our People initiatives to foster a culture of engagement at every level and across the whole Group.

The HR team's current initiatives focus on: creating a positive working environment, strong employee engagement, diversity and inclusion, wellbeing, equitable remuneration, personal career development, and employee benefits.

## TARGET: CONTINUOUSLY WORK TOWARDS CREATING A 'GREAT PLACE TO WORK'

Recognising that at the heart of all we  do we aim to create a culture of:

**A listening organisation**
**An engaged workforce**
**Continued development**
**Embracing Diversity & Inclusion**

**Key**
🟢 Actioned
🟡 In progress
🟠 To be started

| Milestone | Vision | Actions | Progress |
|---|---|---|---|
| **Creating a listening organisation** | Employees and managers feel comfortable sharing ideas and suggestions | Develop employee forum, 'Our Focus'. | 🟢 Kicked off 'Our Focus' forum in June 2023.<br>Monthly timetable created. |
| | | Engagement surveys with high response rates and commentary. | 🟢 2x 2023 surveys:<br>87% and 85% response rates. |
| **Creating an engaged workforce** | Employees have a positive connection with the company | Develop our existing wellbeing plans. | 🟢 Work started to extend our wellbeing initiatives into new areas. |
| | | Utilise new office facilities to encourage social activities. | 🟢 Regular plans in place for social engagement with employees. |
| **Attracting and retaining the very best talent** | Creating a great candidate experience and encouraging a continuous learning and development culture | Promote from within. | 🟢 Communicating all vacancies to all employees. |
| | | Recruit from as wide a pool as possible. | 🟡 Starting to collate D&I data. |
| | | Refresh line manager training and develop career frameworks. | 🟠 Plans to kick off Q4 FY24. |
| **Developing Diversity & Inclusion in the workplace** | Employees engage in a D&I strategy that is embedded within the company culture | Share a revised D&I plan with all. | 🟡 New D&I plans in review stage.<br>Kick off planned Q2 FY24. |
| | | Develop the D&I workstreams with representations from across the Company. | 🟡 Creating workstreams and building a team of representatives. |

CONTINUED OVER →

## Welcome to the Focusrite Family

**Sonnox**
Another new brand has joined the Group in FY23. We have already shared the Group talent acquisition skills to help recruitment and have started to share other HR initiatives. After the acquisition, we were able to assess and quickly improve the employee benefits offering to be in line with the rest of our UK employees.

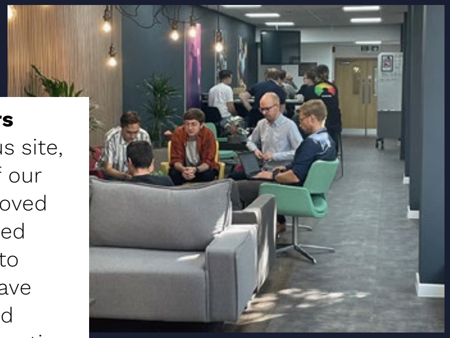
DEC 2022

## Improving our Workspaces

**See the Martin Audio video at bit.ly/MA_Office**

**Expanded and refurbished offices UK & Germany**
Martin Audio has been expanding rapidly, needing increased space for customer demos, R&D/workshop and product service areas. Our team in ADAM Audio Berlin has also benefited from a refurbished office. Staff have responded very positively as we aimed to create bright and open spaces with improved breakout/meeting facilities, dining and communal areas.

APR 2023



**New Focusrite headquarters**
Having outgrown our previous site, following the introduction of our return to office policy, we moved to the Artisan building, located close by, with no disruption to employee commuting. We have introduced open meeting and breakout areas to aid collaboration. This bright new environment has all employees on one level and offers a full canteen service providing a healthy lunch every day.

MAY 2023

# Environmental, Social and Governance – Social continued

## Creating a listening organisation

**Employees and managers feel comfortable sharing ideas and suggestions**

### Employee Forum

Our Focus is our people forum; a regular meeting, attended by representatives of all areas and people within the company, as well as senior leaders. This forum provides a platform on which the views, queries and suggestions of anyone and everyone across the company, can be voiced, discussed, and, crucially, answered.

In addition to promoting clarity, transparency, and understanding across the company, the forum is also a direct, two-way, channel of communication with key decision makers within the business.

As well as being the primary mechanism for individuals to challenge decisions, influence policy and affect real change within the business, Our Focus also offers the company a way to canvas the opinions of colleagues in order to make informed decisions that work for everyone.

### Engagement Survey

The biannual HIVE engagement survey covers areas such as advocacy, pride, loyalty, relationship with management, feedback, employee recognition, and personal growth. The response rates have remained high, with 87% and 85% taking part in our most recent two surveys. Our eNPS across the Group has increased slightly from 18 to 21, and, with over 40% of employees providing us with additional comments, we have meaningful commentary to respond to. We have taken the action to follow up by reviewing the narrative carefully in each business area, ensuring that employees are given feedback. We are also creating action plans to take forward the ideas and suggestions that our employees express in the surveys.

## Creating an engaged workforce

**Employees have a positive connection with the company**

### Onboarding

Getting the first few months right with new employees is important. We understand that this important time needs to be managed carefully. The onboarding processes are constantly being reviewed across all our brands to ensure each employee has the best possible introduction to the Focusrite family.

### Wellbeing

Our current programme offers support in mental health awareness and education. We now wish to expand our offering to the often-neglected areas of social, environmental and financial wellbeing.

Our employees engage with ideas for social events; that may be supporting the Women's World Cup football in the UK, a Dodgers game in the US, go-karting in Germany or having our Focusrite Novation summer event.

With the collaboration of our teams across the UK and Germany, we continue to offer free English and German language classes.

Germany: ADAM Audio Go-karting

## Attracting and retaining the very best talent

**Creating a great candidate experience and encouraging a continuous learning and development culture**

### Talent Acquisition

Wherever possible, we aim to promote from within and to encourage our staff to move across our regions and brands.

Our talent acquisition team continually works to develop the candidate's experience from the first moment we have contact. We pride ourselves on quick responses with applications to keep the momentum and excitement of applying for a new role.

We have recently developed a new hiring managers info pack, containing an overview of the process, helping our managers deliver the best possible experience to applicants.

Continuing the candidate experience even further have developed a welcome pack and 'check in' programme for those who are new to the area.

Our future plans in this area include expanding our sixth form work experience, new video material to illustrate the Focusrite culture, and extending the apprenticeship scheme.

### Developing Our People Through Continuous Learning

Our commitment to developing our people is all part of creating a great employee experience. We aim to retain our people by creating the environment where employees can develop their skills, whether that is through challenging experiences and assignments/projects, through developing relationships to enhance learning, or more traditional course work and training modules.

We have invested by providing online compliance training that is available on demand, along with both new and experienced leaders' management training. We also offer individual career performance coaching. We continue to run a mentoring programme where employees offer to become mentors/mentees. For the first time, this year we are offering resilience training, and 'allies for equity' training as part of our new D&I strategy.

## Developing Diversity & Inclusion in the workplace

**Employees engage in a D&I strategy that is embedded within the company culture**

### Diversity & Inclusion

We are proud of our commitment to D&I at Focusrite and have long understood the benefits this work brings. It is universally recognised by leading employers that D&I results in better productivity and studies show that employees are happier in a workplace where D&I is central elements of the culture.

We have recently embarked on revising our work in this area with our UK and US teams leading the way, and we aim to recognise that diverse talent brings different perspectives, experiences, and ideas to the table, and encouraging a diverse workforce can generate a wider range of solutions to problems and contribute to the development of new ideas and services.

**D&I IN FY23**

Race
Ethnicity
Sexual Orientation
Gender
Disability

↓

**NEW WORKSTREAMS FOR FY24**

Neurodiversity
Social Mobility
Parents & Carers
Multi-generational Workforce

The current D&I workstreams encompass the most common characteristics/identity groupings: race, ethnicity, sexual orientation, gender and disability. We have decided to refresh our work in this area, and are currently developing plans to expand to areas such as neurodiversity, social mobility, parents & carers and the multi-generational workforce.

We will be utilising our performance management system to set up talking points and promote participation in all D&I focus areas. And after publishing a 2024 calendar of varied D&I activities, we will be encouraging input and discussion. We aim for employees to form work groups and actively contribute to agenda points.

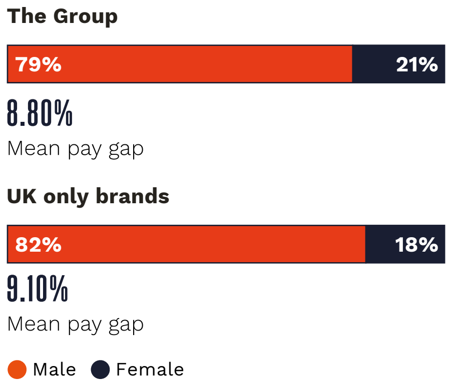
We will also begin running monthly D&I meetings. These will cover a comprehensive range of diversity topics to embrace a broad array of identities and areas of potential marginalisation, and build employee knowledge/awareness in these areas.

### Gender Pay Data

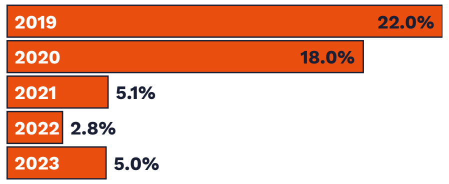
We continue to monitor closely our gender pay data and aim to keep reducing the pay gap year on year. For the first time, this year we have collated data for the whole Group.

The current Group workforce is comprised of 21% female and 79% male, and this figure is largely consistent across the brands within the Group.

**Gender pay gap**



The mean (average) pay gap has decreased overall in the largest of our UK brands (Focusrite and Novation) since 2019:



# Environmental, Social and Governance – Governance

WE ARE COMMITTED *TO ENSURING OUR* **ROBUST CORPORATE GOVERNANCE** *APPROACH* **CULTIVATES A CULTURE OF INTEGRITY** *THAT* HOLDS US ACCOUNTABLE *TO THE* **HIGHEST MORAL AND ETHICAL STANDARDS** *AND PRESERVES* VALUE FOR ALL *STAKEHOLDERS.*

**Francine Godrich**
Group General Counsel

## Taking responsibility for igniting a passion for sustainability in everyone

Involving everyone, right across the Group, has been at the heart of our approach to sustainability from the beginning. We have continued to build on the findings of our materiality survey that identified the most material ESG topics that have captured the attention of our people, will drive our long-term business sustainability and create value across the Group. Each year, we engage with a wide range of stakeholders to understand what matters to them most and demonstrate responsible and ethical business practices to ensure that sustainability is integrated into all aspects of business strategy and decision-making processes.

### We have incorporated the TCFD's recommendations for governance

**ESG & CC COMMITTEE**
Drive the Group's ESG strategy

**PEOPLE FORUM**
Provides a platform on which views, queries and suggestions can be voiced, discussed and, crucially, answered

**DIVERSITY AND INCLUSION COMMITTEE**
Bring diverse thinking to address the Group's People strategy

**GENERAL EXECUTIVE COMMITTEE**
Execute the ESG strategy

**BOARD**
Overall accountability for the Group's ESG strategy

**AUDIT COMMITTEE**
Continuing the identification and management of climate risks in accordance with the Group's risk management programme

**NOMINATION COMMITTEE**
Responsible for ensuring any Board appointees have sufficient climate risk knowledge

**REMUNERATION COMMITTEE**
Considering how ESG targets may be set and measured when considering the executive directors' remuneration packages

| Level | Stakeholder | Description |
|---|---|---|
| Group | PLC Board | The PLC Board receives an update on Environmental & Climate progress every quarter, providing oversight on our progress as well as an update on climate risks/opportunities. |
| Group | ESG & Climate Change Committee ('ESGCC') | The ESGCC Committee was formed in 2021, and aims to achieve a consistent approach between each of the Environmental, Social and Governance workstreams, and respond to upcoming regulatory requirements. |
| Executive Level | Group CFO | Our Global Head of Sustainability reports directly to the Group CFO, providing a direct link to the senior leadership. |
| Executive Level | Operating Company Leadership | Our Global Head of Sustainability also has regular meetings with the executive leadership at each operating company, |
| Management | Senior Leadership Management | Senior Leadership are updated regularly by our Global Head of Sustainability, with an opportunity for feedback by managers on progress towards Company climate-related objectives and key results. |

## Top Down and Bottom-Up Approach

Our Global Head of Sustainability & Climate updates the PLC Board and individual operating company board meetings on a quarterly basis. By having this regular update, changes to our risks and opportunities, or new steps needed are discussed at the highest level, as well as joining climate change with the management level company boards to provide oversight here.

Climate risk is included within our ESG strategy, for which the Board has overall accountability. Execution of this strategy is delegated to the General Executive Committee.

The impact of climate change risk on our business and our impact on the world around is reviewed continuously by the ESGCC Committee and quarterly by the Board. The ESGCC Committee meets monthly and is chaired by our CFO.

Our Global Head of Sustainability attends the Board meetings every quarter and shares non-financial performance such as decarbonisation progress (including progress towards setting Science Based Targets), sustainable sourcing and recycled packaging solutions against KPIs with the Board. The Board has the opportunity to challenge thinking and scrutinise actions.

Our climate-related risks and opportunities are reviewed every 2 years to establish if they are still material, and identify any new issues through a series of internal workshops involving senior stakeholders across the Group.

The Audit Committee is responsible for providing oversight and governance of the Group's internal controls and risk management, which encompass ESG. Climate change is included as a principal risk in our risk register. As part of the broader sustainability risk, we assess the impact of our manufacturing footprint and sourcing of ingredients as well climate-related changes to consumer  and customer preferences.

In light of the importance of climate change, our General Executive Committee has overall responsibility for assessing our climate-related risks and implementing our mitigation actions. Our ESGCC Committee is accountable for identifying, understanding and responding to climate-related risks and opportunities as well as managing the progress of our sustainability and climate change targets.

Where a plan of action, investment or risk management programme is needed, this is done by the ESGCC Committee as well as the setting of objectives and then, as and when needed, presented to the General Executive Committee and/or the Board for decision-making – for example, the change across the Group to sourcing renewable energy, switching to recycled materials in products and reforestation efforts. The ESGCC Committee is also responsible for reviewing our GHG emissions, disclosures and understanding the actions needed to commit to science-based targets from 2025 at the latest.

In order to ensure that our ESG strategy is integrated into the business as a whole, the ESGCC Committee comprises leaders and decision-makers who are able to influence the strategic decision-making and implementation of our People and Planet goals.

Climate mitigating actions taken during the year are set out in the Environment section at pages 44 to 51.

**SHAREHOLDERS:** 385 SHAREHOLDERS AS AT 1 NOVEMBER 2023

↓

**BOARD**

↓

NON-EXECUTIVE CHAIRMAN **PHILIP DUDDERIDGE**
The Chairman leads the Board and is responsible for creating the right conditions for the overall Board and individual Director effectiveness in directing the Group.

CHIEF EXECUTIVE OFFICER **TIM CARROLL**
The CEO is responsible for the day-to-day management of the business, developing the Group's strategic direction for consideration and approval by the Board and implementing the agreed strategy.

CHIEF FINANCIAL OFFICER **SALLY MCKONE**
The CFO is responsible for all financial related activities including the development of financial and operational strategies, strategic planning and deal analysis. Sally also leads the Group's ESG Committee.

SENIOR INDEPENDENT DIRECTOR
**DAVID BEZEM**
The Senior Independent Director works closely with the Chairman, acting as a sounding board and providing support. He is available to shareholders and other Directors to address any concerns or issues.

INDEPENDENT NON-EXECUTIVE DIRECTORS
**MIKE BUTTERWORTH, NAOMI CLIMER**
The Non-executive Directors bring independent judgement and oversight provide critical and constructive challenge and scrutiny to the Executive Directors and their performance against agreed performance objectives.

GENERAL COUNSEL AND COMPANY SECRETARY
**FRANCINE GODRICH**
The General Counsel and Company Secretary is the legal adviser for the Group and is responsible for advising the Board on all governance matters.

**BOARD COMMITTEES**

↓

NOMINATION COMMITTEE
**DAVID BEZEM**
Responsible for Board appointments and succession planning and reviewing the structure, size and composition of the Board, ensuring that there is a balance of skills, knowledge, experience and diversity on the Board.

AUDIT COMMITTEE
**MIKE BUTTERWORTH**
Monitors the integrity of the Group's external reporting and provides oversight and governance of the Group's internal controls, risk management and the relationship with internal and external auditors.

REMUNERATION COMMITTEE
**NAOMI CLIMER**
Responsible for setting the remuneration policy and individual compensation for the Executive Directors to ensure that it is in line with the long-term interests of the Group.

GENERAL EXECUTIVE COMMITTEE ('GEC')
Responsible for formulating and, after approval, implementing the Group's strategic plan. The GEC consists of the Group CFO, Group CEO, Chief Revenue Officer, Chief People Officer, Chief Information Officer and Group General Counsel together with the CEOs/ Managing Directors of each of the brands. They support the Group CEO in carrying out his role and manage the day-to-day operation of the Group.

↑

**COMMITTEES:** ESG, PEOPLE FORUM, PRIVACY COUNCIL

# Environmental, Social and Governance – Governance continued

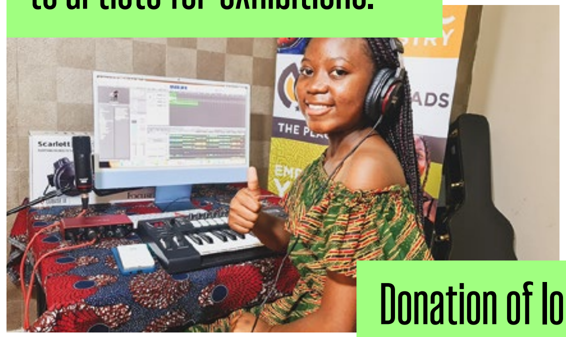
## FOCUSRITE FOR GOOD

Local community engagement was considered to be important to our People following our materiality survey and so this year saw the launch of 'FocusRITE for Good', our local community engagement programme. A few examples of what we have done this year:

Donated over 7,000 Novation Launchpads and Launchpad Mini MK2s to local schools.

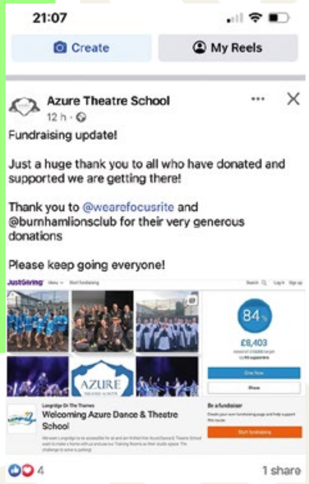
Donated $5,000 for the purchase of recording equipment by a not for profit songwriting organisation.

Free loan of loudspeakers to artists for exhibitions.



Donation of loudspeakers to youth centres.

Helped a ballet school, committed to making dance accessible to everyone, establish a permanent home in a community close to our location. Established a permanent studio.



Azure Theatre School

12 h ·

Fundraising update!

Just a huge thank you to all who have donated and supported we are getting there!

Thank you to @wearefocusrite and @burnhamlionsclub for their very generous donations

Please keep going everyone!

Improved the cleanliness of the environment outside our offices.

Strengthened our partnership with Music Crossroads International, which aims to empower youth through music, focusing on professional training for young talented people.

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# Stakeholder Engagement

We have built strong relationships over many years with a wide range of stakeholders. Their trust and support enables us to build a more sustainable, resilient business which operates responsibly and creates a wide range of stakeholder benefits. Our customers are our end users and our partners are our sales partners and suppliers.

| Our key stakeholders | How we engaged | What was important in the year | Priorities for FY24 |
|---|---|---|---|
| Our people | – Annual engagement survey supported by pulse results<br>– Regular group-wide all hands communications led by the CEO and brand leaders<br>– Employee-led D&A and sustainability networks<br>– Monthly people forum and works councils to discuss topics raised by employees | – Wellbeing tools and seminars launched<br>– Pension education sessions delivered<br>– Employee engagement and input into the new office designed to cater for hybrid working | – Broadening support team specialists skills to deliver 24/7 support for all brands<br>– Aligning NPS survey programme across all content creator brands to enable a more holistic understanding of content creators experience across our brands<br>– Further personalisation of customer journeys |
| Our customers | – Regular NPS surveys giving constant feedback on service and products reviewed by brand management teams on a monthly basis<br>– Constant interaction through social media and online forums supported by our global teams<br>– Dedicated customer support team providing localised support via phone, live chat and e-mail. 24/7 support for the Focusrite and Novation brands | – Consolidated support systems to enable seamless cross-brand collaboration<br>– Built a new profiling/ segmentation model to align customer journeys around data informed customer groups<br>– Overhauled our Easy Start onboarding experience to deliver a more personalised onboarding experience, starting with the latest generation of our Scarlett Interfaces<br>– Phones calls now following the sun with call back functionality added, to minimise hold times | – Training and developing support team specialists skills to deliver 24/7 support for all brands<br>– Aligning NPS survey programme across all content creator brands to enable a more holistic understanding of content creators experience across our brands<br>– Further personalization of customer journeys |
| Our partners | – Regular joint business reviews, supported by visits to major partners at least once a year wherever possible<br>– Dedicated account managers in place for our key distributors and resellers | – Continuing our work to support our statements on Modern Slavery including visits to manufacturing sites now that travel restrictions have relaxed | – Aligning production across our brands to strengthen our relationships with key partners<br>– Reviewing our routes to market with key partners to continue to provide the best service to our customers |
| Our planet | – Green team network set up across the Group supported by full-time Global Head of Sustainability<br>– Founder member of the Greening Music Technology Group – working with peers across the industry<br>– Separate TCFD report published this year to outline our strategy and activities in this area | – Mandatory UK Climate-related Financial Disclosures (CFD) Compliance<br>– Building our in-house product lifecycle assessment (LCA) database and using this to calculate our Scope 3 Emissions | – Continuing to implement recycled materials in mass production<br>– Ongoing development of the LCA database to include parametric design tools for engineers and recasting emissions scenarios<br>– Committing to Science Based Targets |
| Our investors | – Annual General Meetings<br>– Investor roadshows and personal meetings with analysts and investors<br>– Corporate website<br>– Results presentations broadcast on investormeet platform | – Redesigned Corporate Website providing more easily accessible information about the Group and Strategy<br>– Redesigned Annual Report outlining the new Group structure and strategy | – Gaining feedback on website and Annual Report from investors for further improvement in FY24<br>– Focus on face to face visits and meetings to showcase products and strategy with investors |

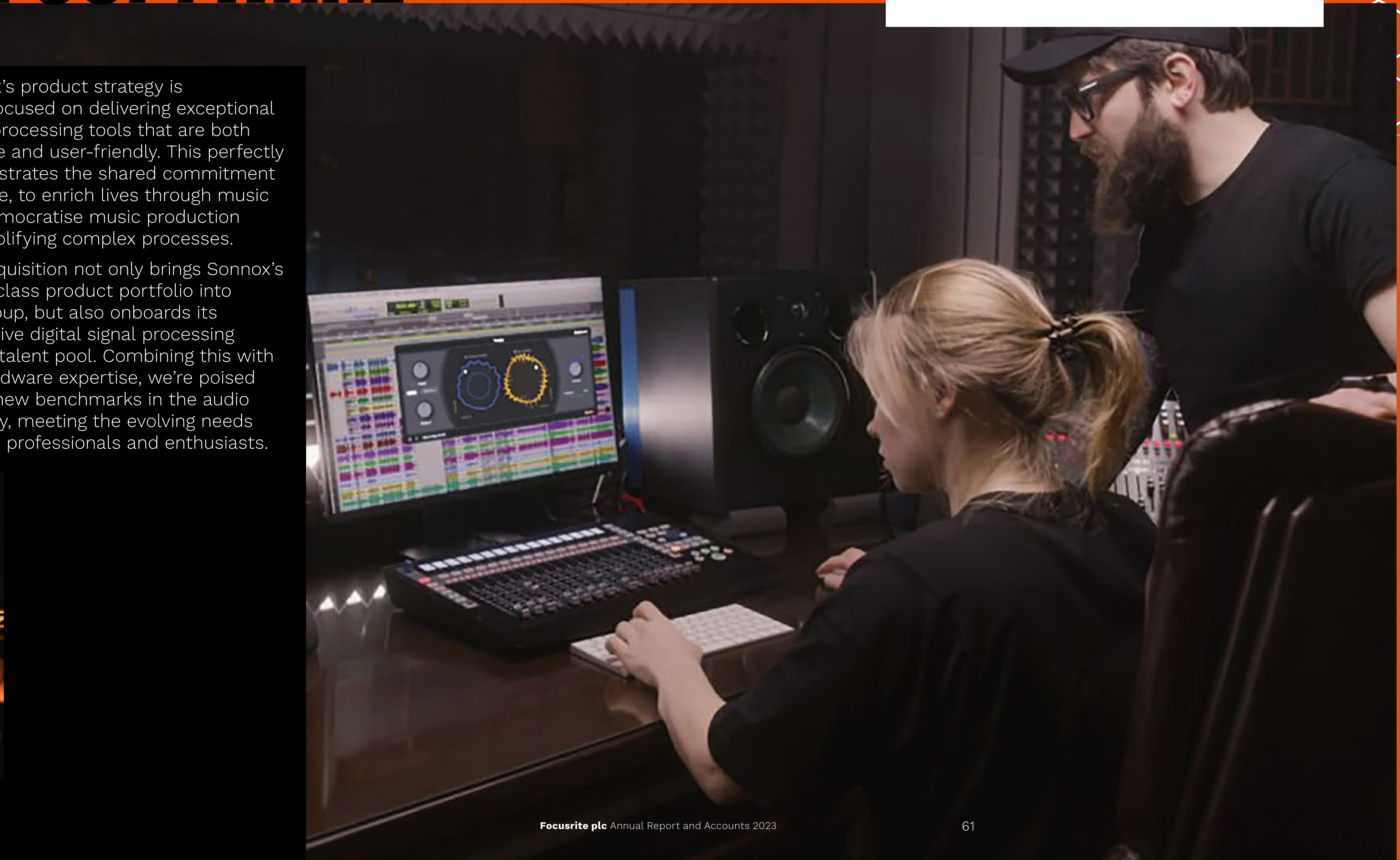
# EXPANDING OUR REACH WITH SOFTWARE

**Sonnox – audio processing software experts – has joined the Focusrite Group.**

The Sonnox acquisition was completed in December 2022, for a total consideration of £7.2 million, net of cash acquired of £1.9 million. Sonnox has contributed £1.1 million of revenue to the Group in the current year, including the launch of Voca in August 2023. This solution takes the intricate challenges of vocal production and radically simplifies the workflow, while simultaneously delivering higher-quality results for users.

Sonnox's product strategy is laser-focused on delivering exceptional audio processing tools that are both intuitive and user-friendly. This perfectly demonstrates the shared commitment we have, to enrich lives through music and democratise music production by simplifying complex processes.

The acquisition not only brings Sonnox's world-class product portfolio into the Group, but also onboards its innovative digital signal processing ('DSP') talent pool. Combining this with our hardware expertise, we're poised to set new benchmarks in the audio industry, meeting the evolving needs of both professionals and enthusiasts.



## Sonnox acquisition

**"Our possibilities are boundless. Sonnox's products are globally recognised as best in class, making them a natural fit for Focusrite. The opportunities with our combined expertise are truly exciting."**

**Tim Carroll, CEO Focusrite plc**

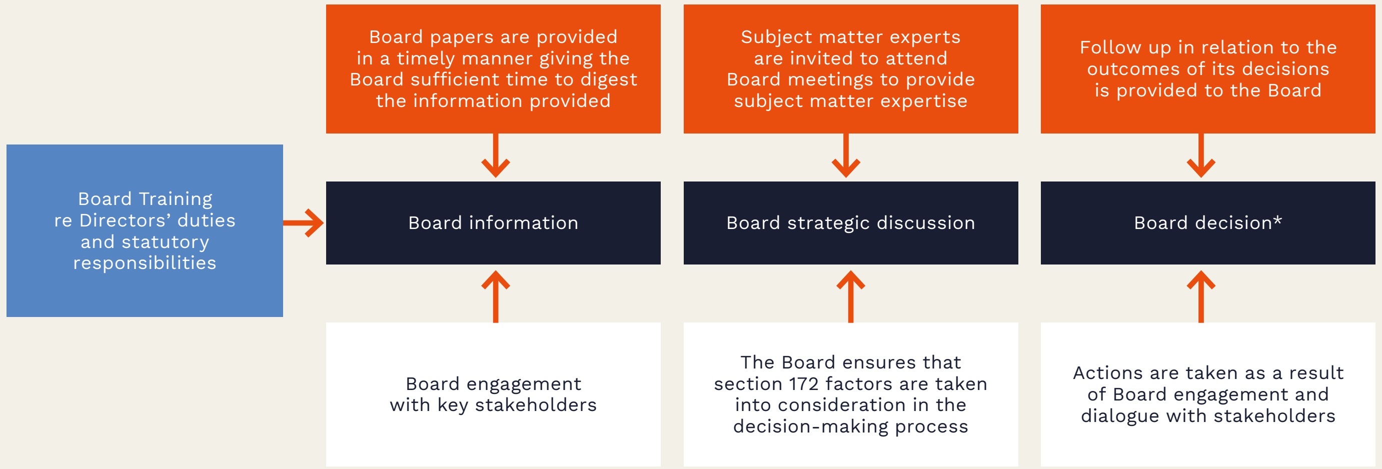
An industry renowned developer of software tools for audio professionals, Sonnox traces its heritage back to the development of the Oxford OXF-R3 digital mixing console, which was installed in major recording studios worldwide, and became widely accepted as the first 'musical' sounding digital console.

# Section 172 Statement

The Board has a duty to promote the success of the Company and, under section 172 of the Companies Act 2006, in doing so it must have regard for a number of matters when making decisions.

On page 59 we have set out further detail as to our key stakeholder groups and how each of them is considered as part of key decisions, along with an insight into how the Board engages with those stakeholders.

The purpose of this statement is to demonstrate how those matters are taken into account in decisions made by the Board. The Board's decision-making process is illustrated as follows:



* The Board delegates some of its decision-making to the General Executive Committee and individual business leaders through a clear delegation of authorities.

An example of the Board's consideration in line with the section 172 matters most relevant to a decision is set out on page 63.

| | | |
|---|---|---|
| A | **The likely consequences of any decision in the long term** | The Board regularly reviews the long-term planning of the Group, as part of an annual three-year planning exercise, with reviews in October 2022, June 2023 and September 2023 this year. Regular reviews of the product roadmap, M&A pipeline and ESG, particularly climate, are included in the Board agenda, as are the management and longer-term implications of more immediate issues such as the current global economic and political challenges and the component supply issues. This year, the purchase of Sonnox Ltd and the launch of Scarlett Gen 4 were supported by the Board as steps towards us delivering against our overall strategic goals. |
| B | **The interests of our employees** | Our actions in this area are included in the Social section on pages 52 to 55.<br>The Chief People Officer attends the Board meetings twice per year, to provide updates on engagement, succession planning and diversity and inclusion amongst other topics. People related metrics are included in monthly Board reports. |
| C | **The need to foster our business relationships with suppliers, customers and others** | Our actions in this area are covered in the Stakeholder Engagement section set out on page 59 and in the case study opposite. The Board has annual updates from our brokers and business updates from each of our brands on key market issues throughout the year, supported by the CEO's monthly report. |
| D | **The impact of the Company's operations on the environment and the community** | See Environment section on pages 44 to 51 and the Social section on pages 52 to 55.<br>The Global Head of Sustainability provides quarterly updates to the Board. |
| E | **The desire to maintain a reputation for high standards of business conduct** | The Board recognises the importance of a robust Corporate Governance Framework and follows the Quoted Companies Alliance Corporate Governance Code – see Governance section pages 64 to 80. An annual refresh of the rules is provided annually by the Group's corporate lawyers. |
| F | **The need to act fairly between members of the company** | The Company has one class of shares in issue, therefore all shareholders have the same rights. The Board does not take any decisions or actions that would provide any shareholder with an unfair advantage or position compared with the shareholders as a whole. It should be noted that where Directors are also shareholders of the Company they are privy to confidential or inside information that is discussed at Board meetings. The Company has a share dealing code that prevents all employees from dealing in the Company's shares at certain points during the year and particularly when they are in possession of inside information. |

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## *Case study:*
## Analysis of China-based manufacturing with reference to section 172

Over 50% of the Group's products are manufactured in China, based on long-term strategic relationships with key partners. Given the ongoing geopolitical risk in this area, the Board has reviewed the Group's long term strategy in this area.

| | | |
|---|---|---|
| A | **The likely consequences of any decision in the long term** | The Board reviewed the Group's long-term strategy for manufacturing, taking into consideration the published plans of much larger technology companies for their manufacturing future.<br>The Board discussed the impact of mitigating the risk of manufacturing in China, concluding that moving final assembly to other geographic regions may result in a manufacturing origin that is not China, but there would still be considerable reliance on some key materials from China, and common with other companies means that the Group cannot totally remove its supply chain from China.<br>The Board discussed mitigating measures, taking into account cost considerations and the need to still guarantee product quality and lead times. These included carrying an increased stock of raw materials from China and working with our existing partners to utilise manufacturing services outside of China, including sites in Vietnam and Mexico. |
| B | **The interests of our employees** | The Board considered that any relocation of assembly would not directly impact current employees, other than to potentially bring supply into our own factories and so further safeguard existing roles, if implemented. |
| C | **The need to foster our business relationships with suppliers, customers and others** | The Board supports the Group policy of establishing long-term partnerships with a few strategic suppliers to create efficiencies in our global supply chain. As a result of our work, the Group was confident in establishing dual sourcing of the Group's largest product line in both China and Malaysia, with similar dual sourcing for the UK and China with Martin Audio and for the US and China for Sequential also being considered. We now have multiple sites across South East Asia, delivering the cost benefits of high-quality volume output focused on a few key partners. |
| D | **The impact of the Company's operations on the environment and the community** | The Group's current manufacturing partners work with us to ensure sustainability is built into the design and manufacturing process, however moving manufacture closer to our end customers would reduce the emissions across our global Supply Chain. The Board considered that this should be a consideration in future decisions. |
| E | **The desire to maintain a reputation for high standards of business conduct** | The Group has engaged leading electronic manufacturers who are recognised for their high standards of production, quality and safety and who are committed to sustaining the societies and environment in which they operate. Quarterly business reviews are carried out with major suppliers, covering performance and sustainability issues, and these are followed up by on site visits at least annually. This provides the Board with assurance on the business conduct of our partners. |

**Conclusion**

Following these considerations the Board concluded if there were serious global sanctions against China, these would be far reaching and the impact would be felt across all industries. The Board noted that as the Group grows, working with our partners to identify low cost manufacturing closer to our end markets should be a consideration, but that our current partners offer the best value for delivery of quality products to our customers.

The Strategic Report, as set out on pages 01 to 63 has been approved by the Board.

On behalf of the Board

**Sally McKone**
Chief Financial Officer

**Tim Carroll**
Chief Executive Officer

28 November 2023

# Our Board of Directors

## Leading by example

### Philip Dudderidge N

**Non-executive Chairman and Founder**

**Appointed 1989**
Phil acquired the assets of Focusrite Limited in 1989 and served as Chief Executive Officer until he became Executive Chairman in 2012, leading the Company through its listing on the Alternative Investment Market of the London Stock Exchange in 2014, becoming Non-executive Chairman in January 2022.

**Board tenure**
34 years

**Career and experience**
Phil has a distinguished career in the professional audio industry. He co-founded Soundcraft in 1973, which became a leading brand of sound mixing consoles and was sold to Harman International in 1988. Phil has a vast insight into the audio industry and brings a wealth of experience in leadership and commercial success to the Board.

### Sally McKone

**Chief Financial Officer**

**Appointed 2021**
Sally joined Focusrite plc as Chief Financial Officer in March 2021.

**Board tenure**
2 years

**Career and experience**
Sally has extensive financial and international experience, with a strong background in the B2B distribution and manufacturing industry. Having trained as a Chartered Accountant with Grant Thornton, Sally moved into industry at Electrocomponents plc and then IMI plc, where she held a number of roles covering both financial reporting and operations roles across Europe, Asia Pacific and the US.

### Tim Carroll

**Chief Executive Officer**

**Appointed 2017**
Tim was appointed Chief Executive Officer of Focusrite plc in January 2017.

**Board tenure**
7 years

**Career and experience**
Previously, Tim was Vice President of Avid Technology, responsible for product development, commercialisation and delivery on all of Avid's audio portfolio, including the industry standard Pro Tools audio workstation, the S6 Control surface, the Venue and S6L Live Sound solutions, and Sibelius notation and music learning applications. Combined with his earlier career as a professional musician, having recorded and toured for nearly 20 years as a keyboard player, Tim has a unique insight into how Focusrite's products appeal to new audiences while improving the experience for existing customers.

● **Committee Chair**
A **Audit Committee**
N **Nomination Committee**
R **Remuneration Committee**

### Naomi Climer CBE A N R

**Independent Non-executive Director**

**Appointed 2018**
Naomi joined the Board of Focusrite plc as a Non-executive Director in May 2018 and became Chair of the Remuneration Committee in January 2022.

**Board tenure**
5 years

**Career and experience**
Naomi has an engineering background; she has held senior leadership positions in technology, media, engineering and scientific industries – all closely aligned to Focusrite's sectors. With strong international experience across EMEA, the US and Asia, Naomi also has experience across hardware, software and SAAS technology development, sales and marketing, and business models. Until March 2015, she was the President of Sony's Media Cloud Services based in Los Angeles. Prior to this, she was Vice President of Sony's B2B organisation across Europe, covering diverse markets including media, broadcast, cinema, sports, security and healthcare.

She currently holds a number of positions including: Non-executive Director of Sony UK Technology Centre, Scottish Television Group plc and Oxford Metrics plc. Naomi is also a Trustee at the Institute for the Future of Work.

### David Bezem A N R

**Senior Independent Director**

**Appointed 2014**
David joined the Board of Focusrite plc as a Non-executive Director in December 2014 when the Company floated on the London Stock Exchange. He was appointed Senior Independent Director in January 2022, prior to which he was Chair of the Remuneration Committee. He also continues to serve as the Chair of the Nomination Committee, which he has done since joining the Board.

**Board tenure**
9 years

**Career and experience**
David was an investment banker in the City for more than 25 years, advising UK public companies across a range of sectors. Prior to that, he qualified as a Chartered Accountant with Arthur Andersen & Co. in London. From 2013 until October 2018, David was also a Non-executive Director and Chair of the Remuneration Committee of Harvey Nash Group plc.

### Mike Butterworth A N R

**Independent Non-executive Director**

**Appointed 2022**
Mike joined the Board of Focusrite plc as a Non-executive Director and Chair of the Audit Committee in January 2022.

**Board tenure**
2 years

**Career and experience**
Mike has over 35 years of experience in finance roles across numerous sectors in both an executive and non-executive capacity. Previously, he was Chief Financial Officer at Cookson Group plc between 2005 and 2013 and Incepta Group plc between 2001 and 2005. More recently, Mike has held a number of non-executive directorships and is currently a Non-executive Director and Chair of the Audit Committee at Hammerson plc and Pressure Technologies plc. Mike is a Chartered Accountant, has extensive financial experience and has worked across a range of sectors, both in the UK and internationally. These skills complement and enhance the Board's existing skills and he brings a valuable and fresh perspective to Board discussions.

# Corporate Governance Report

> **Our governance framework continues to be meaningful, relevant and focused on enabling our business to grow. It is designed to reflect the diverse range of stakeholders' interests, support our long-term growth strategy as well as enhance our position as a leading and reputable business in the industry.**

**Phil Dudderidge**
Non-Executive Chairman and Founder

## DEAR SHAREHOLDER

I am pleased to present the Corporate Governance Report for the year ended 31 August 2023 ('FY23'). The report sets out our governance framework, the Board's key actions during the year, our approach to the alignment of purpose, values, culture and strategy, and our engagement with stakeholders.

There is an increasingly diverse range of stakeholders and factors that the Board considers as it steers the business towards a resilient strategy for continued growth, and Board time is balanced between people, sustainability and performance to align with the Group's purpose and values.

The Board is mindful that it needs to create the right balance between considering in-year activities and looking ahead at more strategic matters. In addition, the Board has reviewed the Group's three-year plan to ensure that it is right for the post-COVID-19 world and sets the Group on the right course to take advantage of new opportunities and addresses new challenges.

My role as Chairman is to maintain high standards of corporate governance and ensure the Board is suitably equipped to perform its duties. I believe that the Company's governance structure facilitates the growth and development of the Group, while remaining accountable to its shareholders, employees, partners and regulators. As the Group continues to grow, we will continue to evaluate this structure and will take the governance steps necessary to support the Group's development.

### The Quoted Companies Alliance Code

The AIM Rules for Companies require the Board to apply a recognised corporate governance code. As an AIM-listed company, the Board has chosen to formally apply the Quoted Companies Alliance Corporate Governance Code, updated in 2018 (the 'QCA Code').

The QCA Code is constructed around ten broad principles and a set of disclosures grouped under three broad headings: deliver growth; maintain a dynamic management framework; and build trust. An overview of how the Company complies with these principles can be found on our website at focusriteplc.com. Further information is provided below.

### How the Board Works

Biographies of the individual Directors are provided on pages 64 to 65 and their Board and Committee responsibilities are outlined in this corporate governance report and the Committees' reports.

The QCA code was revised in November 2023 with an implementation timetable that would first apply to the Group for the year ending 31 August 2025. We are already complying with a number of the revisions but during FY24, we will perform a review of the revised QCA code to ensure that we remain in full compliance.

### Board Leadership

The role of the Board is to promote the long-term sustainable success of the Group, through its direction of the Group's business, for the benefit of its stakeholders as a whole and contributing to our local communities. The Board is responsible for setting the long-term business strategy and establishing the Group's purpose, vision and values, which, together, underpin the culture of the business – see page 20 for details of our strategy and purpose.

The Board assesses the basis on which the Group fulfils is purpose by focusing on a number of key areas:

GROWING THE CORE

FOCUSING ON LIFETIME VALUE FOR OUR CUSTOMERS

EXPANDING INTO NEW MARKETS

CREATING A GREAT PLACE TO WORK

### Strategy

The Board is focused on the Group's strategic direction and is responsible for assessing the appropriateness of the Group's strategy against its vision and values, making adjustments over time as required. The Board assesses and approves both financial and non-financial targets, including the Group's environmental impact, to ensure alignment with strategic aims. In its revolving Board agenda, the Board considers economic, social, environmental and regulatory issues, and any other relevant external matters that may influence or affect the Group's achievement of its objectives.

For more info, see pages 20 to 21.

### Performance

The Board evaluates and monitors current performance against its agreed budget and is responsible for approving three-year plans, annual budgets, capital commitments, acquisitions, results, dividends and announcements, including the going concern and viability statements. The Board is responsible for ensuring that the necessary financial resources, assets and skills are available to the Group so that it can meet its objectives.

Non-financial performance monitoring includes matters such as health and safety, employee engagement, diversity, and environmental measures such as carbon footprint.

### Internal Controls and Risk Management

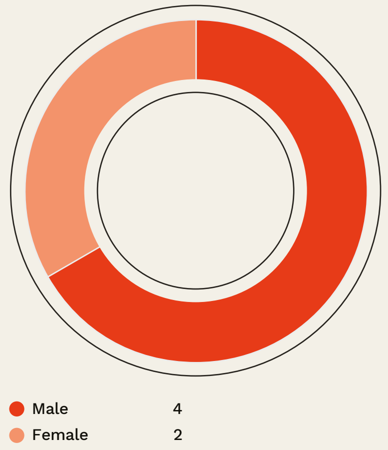
The Board considers the Group's risk appetite for each principal risk, as set out on pages 36 to 41. It assesses principal and emerging risks, approves changes to risk evaluation, and reviews and considers the risk mitigation plans. The Board has ultimate responsibility for the Group's risk management and internal control systems, but the monitoring of these systems is delegated to the Audit Committee.

The Board considers and sets the Company's risk appetite for each of the Company's principal risks. It assesses principal and emerging risks, approves changes to risk evaluations, and reviews and considers mitigation plans. The Board also considers the mapping of risk against risk appetite and approves the overall approach to risk management. While the Board has ultimate responsibility for the Company's risk management and internal control systems, monitoring of these systems is delegated to the Audit Committee.

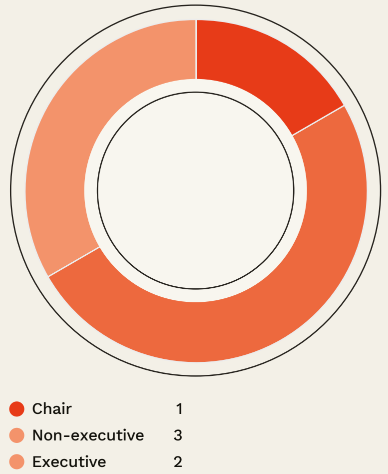
### Board Effectiveness Evaluation

The Board conducts a formal evaluation process every second year. The most recent Board evaluation exercise was carried out in FY22. It is intended that this should become an annual process in future and that in the future an external consultant will be used periodically.

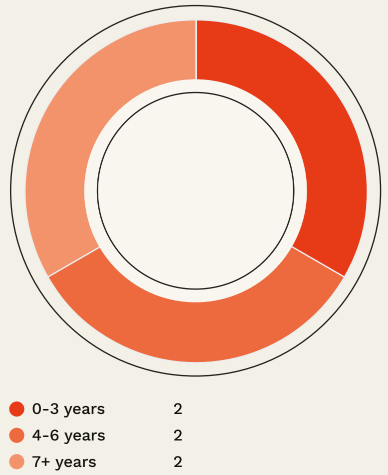
**Board gender**



**Board Executive/ Non-executive membership**



**Tenure (Board)**



# Corporate Governance Report continued

## People

The Board receives and considers the analysis of employee engagement surveys, covering each brand's culture, including wellbeing, learning and development, belonging and career progression, noting performance, progress made following previous surveys and next steps. Information relating to employee engagement can be found on pages 52 to 55. The Board reviews health and safety incidents at every meeting.

The Board is responsible for succession planning and the remuneration policy for the Chairman and Executive Directors following advice and recommendations made by the Nomination and Remuneration Committees.

## Governance, shareholders and stakeholders

The Board reports to shareholders in the form of an Annual Report and Accounts, trading updates and full and half-year results updates, as well as various other statutory non-financial statements. The Board considers the views of, and effects on, the Company's key stakeholders in Board discussions and decision-making and, going forward, intends to engage in direct discussions with some of the Company's shareholders to obtain their views where appropriate.

### Our governance framework

SHAREHOLDERS
385 SHAREHOLDERS AT 1 NOVEMBER 2023

↓

BOARD

↓

BOARD COMMITTEES

↓

GENERAL EXECUTIVE COMMITTEE

## How the Board operates

The Board is accountable to shareholders for the actions of the Company. The Articles of Association of Focusrite plc set out the rules agreed between shareholders as to how the Company is run, including the powers and responsibilities of the Directors. These Articles were updated in January 2019 to incorporate best practice and current legal and governance standards.

## Matters reserved

The Board has a formal schedule of matters specifically reserved for its decision-making and approval. These include responsibility for the overall management and performance of the Group and the approval of its long-term objectives, commercial strategy, annual and interim results, annual budgets, acquisitions, material contracts, major capital commitments, going concern and long-term viability statements, and key policies.

## Committees

Board is assisted by three Board Committees to which it formally delegates matters as set out in each Committee's Terms of Reference, which are reviewed annually.

Terms of Reference for each Committee can be found at focusriteplc.com/investors/corporate-governance. The reports of the Committees can be found on pages 70 to 77. The Board also has a Disclosure Committee which meets when required. Other than to approve various share dealings by Persons Discharging Managerial Responsibilities, the Disclosure Committee was not called upon to meet during the year. The Board may also call on a number of Directors to form a sub-committee for an individual decision or authorisation.

## Delegation of authority

The Board delegates authority for the executive management of the Group to the CEO, other than those matters reserved for decision by the Board and matters delegated to Committees of the Board. The Group has a delegated authority matrix, which is an internal document that sets out the delegations below Board level. It provides a structured framework to ensure the correct level of scrutiny of various decisions, covering matters including contracts, capital expenditure, tax, treasury and People decisions.

## Meetings

The Chairman, in conjunction with the CEO, CFO and Company Secretary, plans an annual programme of Board matters. This ensures that essential topics are covered at appropriate times and that the Board has the opportunity to have in-depth discussions on key issues. The Board met 12 times during the year.

The Chairman regularly meets with the Senior Independent Director and the other Non-executive Directors without the Executive Directors present, both collectively and individually. In addition, the Chairman discusses matters relevant to the Audit and Remuneration Committees with the Chairs of each on a regular basis. Led by the Senior Independent Director, the independent Non-executive Directors also meet regularly during the year without the Chairman.

The Chairman and the Company Secretary ensure that the Directors receive clear, timely information on all relevant matters. Board papers are circulated electronically via a secure Board portal in advance of meetings to ensure that there is adequate time for them to be read and to facilitate robust and informed discussion.

| Director | Role | Board | Audit | Nomination | Remuneration |
|---|---|---|---|---|---|
| **Number of meetings held in year** | | **12** | **2** | **1** | **4** |
| **Phil Dudderidge** | Chairman | 12/12 | 2/2* | 1/1 | 4/4* |
| **Tim Carroll** | Chief Executive Officer | 12/12 | 2/2* | N/A | N/A |
| **Sally McKone** | Chief Financial Officer | 12/12 | 2/2* | N/A | N/A |
| **David Bezem** | Non-Executive Director | 12/12 | 2/2 | 1/1 | 4/4 |
| **Naomi Climer** | Non-Executive Director | 12/12 | 2/2 | 1/1 | 4/4 |
| **Mike Butterworth** | Non-Executive Director | 12/12 | 2/2 | 1/1 | 4/4 |

## Directors

The majority of the Board are Non-executive Directors and, save for the Chairman, are considered to be independent as to character and judgement and free of relationships and other circumstances which might impact their independence at the time of appointment.

The Chairman is not considered independent due to his founding of the Company and significant shareholding. The roles of the Chairman and CEO are separate and there is a clear division of responsibilities between the two.

Non-executive Director appointments are initially for a period of three years and may be renewed for such further term(s), as the Board may consider appropriate, taking the advice of the Nomination Committee into account, taking into account both their continued assessed independence, individual contribution and the Group's future needs. Details of the Executive Directors' service contracts and the Chairman's and the Non-executive Directors' letters of appointment are set out in the Directors' Remuneration Report on pages 73 to 77. These documents are available for inspection at the registered office of the Company during normal business hours and at the Annual General meeting ('AGM'). All Directors stand for annual re-election by shareholders.

## Time commitment and external appointments

Non-executive Directors are required to devote sufficient time to their role and responsibilities as a member of the Board and its Committees.

The Nomination Committee considers any existing time commitments of potential new Directors as part of its selection process and prior to any new appointment being approved. All new Directors are required to provide confirmation of their external appointments upon joining the Board. The Company Secretary maintains a record of all external appointments held by the Directors.

## Directors' Indemnity Insurance

The Group maintains Directors' and Officers' liability insurance which provides appropriate cover for legal actions brought against a Director. Each Director has been granted indemnities in respect of potential liabilities that may be incurred as a result of their position as an officer of the Company. A Director will not be covered by the insurance in the event that they have been proven to have acted dishonestly or fraudulently.

## Conflicts of interest

All Directors have a duty to avoid conflicts of interest and, where they arise, to declare conflicts to the Board, including significant shareholdings. The Board considers and, if thought fit, authorises any potential conflict and the conflicted Director may not participate in any discussion or vote on the authorisation.

## Advice and access to employees

All Directors have access to the advice of the Company Secretary, who is responsible for advising the Board on all governance matters. Directors are also entitled to obtain independent professional advice on any matters related to their responsibilities to the Company, at the Company's expense.

The Board is authorised to seek any information it requires from any employee of the Company in order to perform its duties.

## Training and development

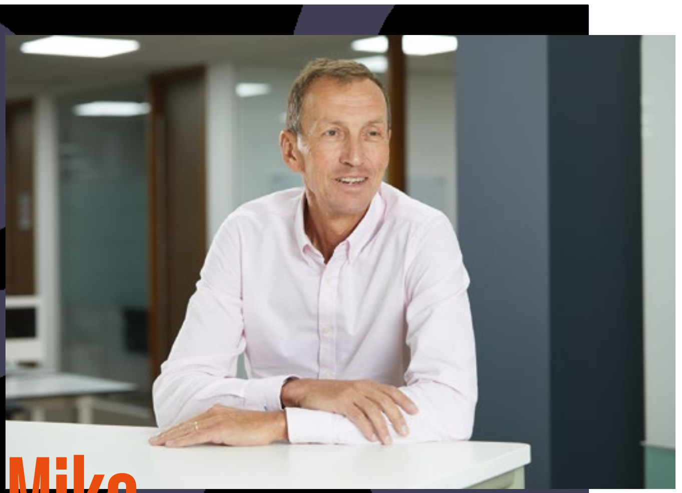
Newly appointed Directors are offered a comprehensive induction on joining the Board, and continuing training and education is available to all Directors to enable them to fulfil their responsibilities as Directors and to develop their understanding of the business. The Company Secretary arranges for external speakers to provide training on specific topics as appropriate. During the year, the Company's NOMAD provides refresher training on the AIM Rules.

This Governance Statement, including the Audit Committee and Remuneration Committee reports, explains how we have applied the principles and complied with the provisions of the QCA Code.

**Philip Dudderidge**
Non-executive Chairman and Founder

28 November 2023

# Audit Committee Report



## Mike Butterworth

## DEAR SHAREHOLDER

On behalf of the Board, I am pleased to present the Audit Committee Report for the year ended 31 August 2023.

The Audit Committee is responsible for ensuring that the financial performance of the Group is properly reported and reviewed. Its role includes:

- monitoring the integrity of the financial statements (including annual and interim accounts and results announcements);
- reviewing internal control and risk management systems;
- reviewing any changes to accounting policies;
- reviewing and monitoring the extent of the non-audit services undertaken by the external auditor;
- advising on the appointment of the external auditor; and
- meeting with the external auditor outside the Committee schedule to ensure there is full opportunity for discussion.

## Members of the Audit Committee

The Committee consists of three independent Non-executive Directors: Mike Butterworth, David Bezem and Naomi Climer. Phil Dudderidge, Tim Carroll and Sally McKone may attend Committee meetings by invitation if required. The Committee met twice during the year and once on the day after year end, so fulfilling the requirement to meet at least three times a year.

The Board is satisfied that I, as Chair of the Committee, have recent and relevant financial experience. I am a Chartered Accountant and served as CFO of a FTSE 250 company for eight years until December 2012. I am currently Chair of the Audit Committee of Hammerson plc and Pressure Technologies plc, and previously Cambian Group plc, Johnston Press plc, Kin and Carta plc and Stock Spirits Group plc. The Company Secretary, Francine Godrich, acts as Secretary to the Committee. I report the Committee's deliberations at the next Board meeting and the minutes of each meeting are made available to all members of the Board.

## Duties

The main duties of the Audit Committee are set out in its Terms of Reference, which are available on the Company's website (focusriteplc.com) and are available on request from the Company Secretary. The main items of business considered by the Audit Committee during the year included:

- appointment of the external auditor;
- agreement and approval of the external audit plan and fees;
- monitoring the extent of the non-audit services undertaken by the external auditor;
- review of the effectiveness of internal controls and risk management systems;
- reviews of going concern, key judgements and significant accounting policies;
- reviews of the carrying values of intangible assets;
- review of the interim results;
- review of the auditor's findings from the annual audit including consideration of the external audit report and management representation letter;
- review of the annual financial statements;
- review of the Annual Report to ensure that it is fair, balanced and understandable;
- meeting with the external auditor without management present;
- the agreement of the internal audit programme and review of the internal audit reports; and
- review of the IT position of the Group with particular regard to systems development, access controls and cyber security.

## Role of the external auditor

The Audit Committee monitors the relationship with the external auditor, KPMG LLP, to ensure that auditor independence and objectivity are maintained. As part of its review, the Committee monitors the provision of non-audit services by the external auditor. The breakdown of fees between audit and non-audit services is provided in note 10 to the Group's financial statements.

The Audit Committee also assesses the external auditor's independence and performance. KPMG LLP has complied with the partner rotation requirement set out in Ethical Standards for Auditors. James Tracey became the audit partner in the prior year, replacing Michael Froom who rotated out in line with audit guidelines having been audit partner since 2018. During the year KPMG identified that 2 member firms in Germany and Hong Kong has provided some financial preparation work, mainly of an administrative nature, completed after the Group results were signed. These services have now terminated, and we do not believe that this impaired the integrity of the provision of audit services. Having reviewed the external auditor's independence and performance, the Audit Committee recommends that KPMG LLP be reappointed as the Company's external auditor at the next AGM.

As an AIM listed company, there is no formal requirement as to the retendering of the external auditor. However, the Audit Committee has decided it would be best practice to follow the requirements of the Corporate Governance Code, applicable to companies listed on the main market, which require an audit tender after ten years and a rotation of the external auditor after 20 years. KPMG LLP has been the Group's auditor since the IPO in 2014, and as a result it is currently expected that a retendering exercise will be completed no later than for the year ending 31 August 2025.

## Significant financial judgements and estimates

The significant judgements reviewed by the Committee in respect of the year under review were as follows:

**Revenue recognition**

Stock is sold and revenue recognised when we have satisfied our performance obligations to distributors and dealers. The key judgement required is in the USA where the Group has a single distributor, American Music & Sound ('AMS'), which is a division of JAM Industries Limited, who are themselves owned by DCC plc. The Group's subsidiary, Focusrite Group US ('FGUS') works closely with AMS to market the Group's products and maintain relationships with AMS' customers. However, in the judgement of the Directors, the Group does not have continuing managerial involvement over the goods sold to the degree usually associated with ownership, thereby signalling that AMS is a principal, rather than an agent of the Group.

The reasons for this view include the facts that AMS has responsibility for providing goods to the customer, responsibility for the collection of payments from their customers and has no right of return to the Group. This judgement is consistent with prior periods.

## Other accounting issues

**Capitalisation and recoverability of internally-generated intangible assets**

The Committee accepted that, under IAS 38, it was necessary to capitalise product development costs if certain conditions were met. The Committee considered the capitalisation of cost, the commencement of amortisation and the period over which the costs were amortised and concluded that all were acceptable.

The significant estimates reviewed by the Committee in respect of the year under review were as follows:

**Acquisition accounting and recoverability of investment**

Following the acquisition of Sonnox Ltd in December 2022, the purchase price was allocated across the fair value of the assets and liabilities acquired. This included the assessment of the fair value of intangibles acquired such as brand and product development in which there has been significant estimation and judgement applied by management. Evelyn Partners LLP was engaged to assist with this valuation to determine which assets were identifiable and the relevant valuation methodology to be used.

**Impairment testing**

For all of the major intangible assets, there is an ongoing review process in which these assets are tested for impairment. The recoverable value of an asset is assessed and, in the event that the recoverable value is less that the carrying value, an impairment is recognised.

For all intangibles, the recoverable amount exceeded the carrying value of the assets. Therefore, no impairment was indicated for the intangible assets on the balance sheet.

## Financial Reporting Council ('FRC') Review of FY22 Annual Report

As part of its routine work, the Corporate Reporting Review Team of the FRC reviewed the Group's Annual Report for the year ended 31 August 2022. This review does not provide assurance that the Annual Report and Accounts are correct in all material respects as the FRC's role is not to verify the information but to consider compliance with reporting requirements.

The FRC asked for further information about the Group's policy for the amortisation of capitalised development costs. After consideration, we have clarified the policy in use in the FY22 Annual Report and confirmed that the amortisation of certain acquired intangible assets had commenced before these were available for use, resulting in a £1.0 million understatement of the carrying values as at 31 August 2022. The Directors considered the effects to be immaterial and have reversed the excess amortisation in the results for the financial year to 31 August 2023. For FY23 amortisation on acquired capitalised development costs now commences when the related product becomes available for use.

In addition, certain enhancements to disclosures have been made in FY23, including clarifying the Group's accounting policy to state that amortisation begins when an asset is available for use; providing an explanation as to how the Company determines products have reached this stage; and separately disclosing the amount of intangible assets for which amortisation has not yet begun.

# **Audit Committee Report** continued

## Audit process

The external auditor prepares an audit plan for its review of the full year financial statements, including any acquisitions that have taken place. The audit plan sets out the scope of the audit, areas to be targeted and audit timetable. This plan is reviewed and agreed in advance by the Audit Committee. Following its review, the external auditor presented its findings to the Audit Committee for discussion. No major areas of concern were highlighted by the external auditor during the year. However, areas of significant risk and other matters of audit relevance are regularly communicated. The Committee also formally reviews the effectiveness of the external audit process.

## Internal audit

Historically the Group does not utilise a dedicated internal audit function and the Committee believes that management is able to derive assurance as to the adequacy and effectiveness of internal controls and risk management by using outsourced resources to carry out internal audits. Mazars and Grant Thornton have both been used during the year working alongside a dedicated internal resource. The internal resource was appointed on an interim basis to provide additional resource to ensure that the two reviews that had been delayed from the prior year were completed along with the programme of reviews for the current year. The internal resource has now left the Group and it is anticipated that the programme of reviews for the coming year will be completed using outsourced resources only.

An audit programme was agreed for the year focusing on key risk areas. The programme comprised three reviews in respect of the current year, and two reviews delayed from the prior year. The reviews covered indirect taxes in the UK, and financial control processes in Sequential, FAEL, Linea Research and ADAM Audio. The reviews identified a number of control improvements which management are in the process of rectifying to a timetable approved by the Committee. Three further audits are planed in the coming year, focusing on new acquisitions and risk focus areas.

## Risk management and internal controls

As described on page 67 of the Corporate Governance Report, the Group has established a framework of risk management and internal control systems, policies and procedures. The Audit Committee is responsible for reviewing the risk management and internal control framework and ensuring that it operates effectively.

During the year, the Committee has reviewed the framework and has had regular updates on the priorities agreed at the end of FY22. The Group and UK Finance teams have been strengthened through a restructure, providing each business unit with its own Finance Director, together with the addition of new resources in technical areas in the Group team. A new forecasting and consolidation system is in the process of implementation across the Group bringing further rigour to our finance processes. In addition RSM have been appointed to act as the Group's UK tax advisor, assisting in the compliance of this increasingly complex area.

During FY24 the focus will be on strengthening our formal documentation to standardise controls and processes across the Group to an agreed standard.

## Whistleblowing, fraud and the UK Bribery Act

The Group has in place a whistleblowing policy which sets out the formal process by which an employee of the Group may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. Whistleblowing is a standing item on the Audit Committee's agenda, and regular updates are provided. During the year, no incidents were reported to the Committee.

The Group also has a procedure in place for detecting fraud, and systems and controls to prevent a breach of anti-bribery legislation. All employees are required to participate in an online training course to provide awareness of anti-bribery regulations and controls. The Group is committed to a zero-tolerance position with regard to bribery. During the year, no incidents were reported to the Committee.

**Mike Butterworth**
Chair of the Audit Committee

28 November 2023

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# Directors' Remuneration Report

> **Focusrite's performance in the 2023 financial year has been resilient. This has been achieved thanks to consistent attention to the four pillars of the business strategy.**

**Naomi Climer**
Independent Non-executive Director

## DEAR SHAREHOLDER

### Introduction

Focusrite's performance in the 2023 financial year has overall been resilient, and the Group remains in a solid position despite continued market and global economic uncertainties. This has been achieved thanks to consistent attention to the four pillars of the business strategy: Growing the core, expanding into new markets, focusing on lifetime value for our customers and creating a great place to work.

The Remuneration Committee has determined that the financial criteria for the annual bonus have been met above threshold and below maximum, and the individual contributions to developing strategic opportunities for the Group were met in full. This results in a bonus at 51% of maximum as detailed on page 75. After a solid performance in a year of global and industry-wide headwinds, the Remuneration Committee considers that these bonuses are appropriate and there is good alignment with shareholders' interests.

The Remuneration Committee previously reviewed Executive Directors' salaries triennially, but as reported in the DRR last year, the Committee will now keep under review the Executive Directors' salaries and other aspects of their remuneration annually, in line with the approach that is being taken for other employees

This year, considering the market situation and other relevant factors, the decision was made to award pay increases to the Executive Directors at a level below the general staff increases, resulting in a 2.4% salary increase for Tim Carroll and a 2.6% increase for Sally McKone.

The Remuneration Committee believes that it is important to introduce ESG criteria into the Executive remuneration structure, but does not feel that the business is yet at a stage where a mature ESG objective could be introduced, and the achievement of it could be directly linked to business outcomes. The Committee plans to create shadow ESG metrics for tracking over the coming year with a view to introducing ESG measures into the Executive incentive programme in the future.

As a company admitted to AIM, Focusrite plc is not required to prepare a Directors Remuneration Report. However, the Board supports the principle of transparency and has therefore prepared this report in order to provide useful information to shareholders on its executive remuneration arrangements. Although not required to comply with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the 'Regulations'), the Company has used these Regulations, and those recommended by the Quoted Companies Alliance, as guidance for presenting selected disclosures where it considers these to be relevant, helpful and appropriate. Accordingly, this report sets out information about the remuneration of the Directors of the Company for the 2023 financial year and, as appropriate, the following year.

# Directors’ Remuneration Report continued

## Remuneration Committee

The members of the Remuneration Committee are Naomi Climer (Chair), David Bezem, and Mike Butterworth, who are all independent Non-executive Directors. Attendance at meetings of the Remuneration Committee by individual members is detailed in the Corporate Governance Report on page 69. Naomi Climer took over as Chair of the Committee on 1 January 2022 from David Bezem.

The Chairman, Phil Dudderidge, is invited to attend the meetings and the CEO, Tim Carroll, and external advisers may be invited to attend meetings too. They do not take part in the decision-making and are absent when their own remuneration is being discussed. The Company Secretary, Francine Godrich, acts as Secretary to the Committee.

Terms of Reference have been approved for the Remuneration Committee and are reviewed annually. The Committee’s primary responsibility is to determine, on behalf of the Board, the remuneration of the Executive Directors and to review the remuneration of such other members of the senior management team of the Group as is deemed appropriate. The remuneration of the members of the Committee is determined by the Board.

The Committee members have no personal financial interest, other than as shareholders in the Company, in the matters to be decided. They have no conflicts of interest arising from cross-directorships or from being involved in the day-to-day business of the Group. None of the Committee members participate in any bonus, share awards or pension arrangements.

## Executive Director Remuneration Policy

The Committee’s principal aims in setting a remuneration policy are to attract, retain and motivate high-calibre senior management, to focus them on the delivery of the Group’s strategic and business objectives, to promote a strong and sustainable performance culture, and to align the interests of Executive Directors and other senior members of the management team with those of shareholders.

The remuneration package for each Executive Director is designed to include performance and non-performance-related elements appropriate for a group whose objectives include continued growth over the medium term. Non-performance elements include salary, taxable benefits and employer pension contributions. All other components of the remuneration package are performance-related and comprise a mixture of cash and share-based remuneration, and short- and long-term incentives, as set out below.

The main elements of the remuneration packages for Executive Directors are:

- base salary;
- performance-based annual bonus;
- long-term share incentives;
- pension contribution; and
- benefits.

## Base Salary

Previously, base salaries for the Executive Directors have been reviewed on a triennial basis but, from FY23, will be reviewed annually and determined taking account of individual performance, scope of responsibility and relative pay levels within the Group. The Executives’ base salaries for the 2023 financial year are set out in the table on page 77. As a result of the FY23 review, Tim Carroll’s base salary will be increased to £389,100 and Sally McKone’s base salary will be increased to £276,900 for the 2024 financial year.

## Performance-based Annual Bonus

The Executive Directors were entitled to discretionary performance-based annual bonuses for the financial year ended 31 August 2023.

The annual bonus for the 2023 financial year was based on three performance criteria:

- 70% on adjusted EBITDA;
- 20% on adjusted free cash flow as a proportion of revenue and
- 10% on individual contribution to developing strategic opportunities for the Group (assessed qualitatively by the Committee).

The three performance criteria operated independently of one another.

The maximum cash bonus for both Tim Carroll and Sally McKone was 100% of annual base salary, unchanged from previous years. In addition, the Executive Directors had the opportunity to elect to receive a portion of any cash bonus in the form of shares up to a maximum value of 25% of their respective base salary. To the extent they elected to do so, the Company undertook to make a matching award of shares (the ‘matching shares’). This was subject to the condition that both the shares they elected to receive out of their cash bonus and the matching shares would be held for not less than two years, including if they were no longer employed by the Company, subject only to satisfying any tax payments arising in respect of this remuneration. This arrangement is consistent with that adopted in preceding financial years and is designed to accelerate the rate at which the Executive Directors acquire shares in the Company.

As a result of the performance of the Group in the 2023 financial year, the Committee determined that the financial criteria for the bonus were above threshold and below maximum. The Committee also determined that individual contributions to developing strategic opportunities for the Group warranted a maximum payout of that element (10% of the bonus opportunity). The table on the next page shows the upper and lower performance boundaries and the targets for the financial elements of the bonus. No discretionary adjustments were deemed appropriate. The amounts shown in the table are before taking into account any elections to receive a portion of their bonus in shares.

| | | Performance range below which no bonus is paid and above which no additional bonus is paid, and calculated on a straight-line basis between Threshold and Target as well as between Target and Maximum[1] | | | |
|---|---|---|---|---|---|
| | **Performance criterion** | **Lower boundary** | **Target** | **Upper boundary** | **Actual** |
| **Tim Carroll** | Adjusted EBITDA[1] | £36.5m | £40.5m | £42.5m | £38.6m[1] |
| | Cash bonus entitlement | £0 | £159,600 | £266,000 | £121,600 |
| | % salary | 0% | 42% | 70% | 32% |
| | Adjusted free cash flow % of revenue[2] | 5.7% | 7.7% | 10.2% | 6.8% |
| | Cash bonus entitlement | £22,800 | £45,600 | £76,000 | £34,200 |
| | % salary | 6% | 12% | 20% | 9% |
| | Strategic bonus cash settlement | £0 | £22,800 | £38,000 | £38,000 |
| | % salary | 0% | 6% | 10% | 10% |
| | **Total cash bonus** | **£22,800** | **£228,000** | **£380,000** | **£193,800[3]** |
| **Sally McKone** | Adjusted EBITDA[1] | £36.5m | £40.5m | £42.5m | £38.5m[1] |
| | Cash bonus entitlement | £0 | £113,400 | £189,000 | £86,400 |
| | % salary | 0% | 42% | 70% | 32% |
| | Adjusted free cash flow % of revenue[2] | 5.7% | 7.7% | 10.2% | 6.8% |
| | Cash bonus entitlement | £16,200 | £32,400 | £54,000 | £24,300 |
| | % salary | 6% | 12% | 20% | 9% |
| | Strategic bonus cash settlement | £0 | £16,200 | £27,000 | £27,000 |
| | % salary | 0% | 6% | 10% | 10% |
| | **Total cash bonus** | **£16,200** | **£162,000** | **£270,000** | **£137,700[2]** |

[1] Adjusted EBITDA is as per the value published in the accompanying financial statements.

[2] Adjusted free cash flow is as defined in note 5 to the group accounts on page 102.

## Long-term share incentives

The following table shows details of the awards made to Tim Carroll and Sally McKone, as well as other senior management, under the Focusrite Performance Share Plan (‘PSP’) which had not vested or lapsed as at 31 August 2023.

| **PSP awards to Executive Directors and other senior managers** | | | |
|---|---|---|---|
| Grant date | 18-Nov-20 | 17-Nov-21 | 20-Dec-22 |
| Terms: | | | |
| Performance period – three years to: | 31-Aug-23 | 31-Aug-24 | 31-Aug-25 |
| Performance criterion: adjusted EPS CAGR[1] | 10% to 18% or greater | 10% to 18% or greater | Cumulative EPS of 128.5p to 151.6p or greater |
| Proportion of award vesting | 20% to 100% | 20% to 100%[2] | 20% to 100% |
| Exercise price | 0.1p | 0.1p | 0.1p |
| Options granted: | | | |
| Tim Carroll | 31,190 | 18,247 | 45,238 |
| Sally McKone | N/A | 14,311 | 32,143 |
| Other senior managers | 47,169 | 34,612 | 64,337 |
| Vesting (%) | 0% | N/A | N/A |
| Shares vesting: | | | |
| Tim Carroll | – | N/A | N/A |
| Sally McKone | – | N/A | N/A |
| Other senior managers | – | N/A | N/A |

[1] Compound annual growth rate.

[2] Base EPS for FY21 reset to 47.6p to adjust for the exceptional performance due to the impacts of the pandemic.

# Directors’ Remuneration Report continued

## Awards to be made in the 2024 financial year

Following the announcement of results in respect of the 2023 financial year, it is intended that awards will be granted under the PSP to Tim Carroll and Sally McKone in respect of the performance period to the end of the 2026 financial year. As in previous years, these awards will be worth a maximum of 100% of base salary at the time of grant and be subject to adjusted EPS performance over the three financial years to 31 August 2026. Given prevailing volatile market conditions, the Committee has decided to continue with the performance criteria adopted last year: namely three-year cumulative adjusted EPS value. The Committee has been mindful of the need to set challenging targets that are nevertheless appropriately realistic so as to be motivational in this context. As previously, awards will be subject to malus and clawback provisions. PSP awards will also be made to other senior management.

Details of all awards made in the 2024 financial year will be set out in the DRR in next year’s Annual Report.

## Long-term incentives for other employees

A Company Share Option Plan (‘CSOP’) was introduced in the 2018 financial year, operating in a similar way to a conventional option scheme with grants of awards with an exercise price equivalent to the market price at the time the award is made and, as a CSOP, has certain tax advantages for employees. The awards vest in equal tranches after three, four and five years from the date of grant. The last of such grants was awarded in 2020, and since that date the existing PSP was extended more deeply into the Group than in previous years. No directors participate in the CSOP.

## Aggregate Long Term Incentives and Dilution

All the Group’s equity-based awards are subject to an overall limit on the number of new ordinary shares that can be issued which will be dilutive. Other than awards to be satisfied by shares held by the Employee Benefit Trust (‘EBT’) at the time of the IPO, these must not, in aggregate, exceed 10% of the Company’s issued share capital over any rolling ten-year period post-IPO. Over the period since the IPO, which is less than 10 years, a total of 1,136,639 shares have been issued in respect of vesting LTIPs and bonus awards. The following table illustrates the maximum outstanding share awards and potential net dilution as at 31 August 2023:

| Plan | Maximum number of shares relating to award | % of issued share capital |
|---|---|---|
| Tim Carroll – PSP | 94,675 | 0.2% |
| Sally McKone – PSP | 46,454 | 0.1% |
| Other senior management – PSP | 258,261 | 0.4% |
| Other employee share option plans – CSOP | 321,345[2] | 0.5% |
| Options outstanding at end of period | 720,735 | 1.3% |
| Less: unallocated issued shares held in EBT[1] | (624,173) | (0.4%) |
| Potential maximum net dilution | 96,562 | 0.9% |

1 Represents the number of shares held by the EBT as at the IPO and since issued into the EBT less the number of shares used by the EBT to satisfy options that have vested and been exercised.

2 Of the 741,853 shares in last year’s financial statements, no further options were issued, 226,851 options were exercised, and 21,051 options have lapsed through employees leaving the Company.

## Pension contribution

For FY23 Tim Carroll and Sally McKone were entitled to a pension contribution made by the Company of 3% of annual base salary during the financial year. This contribution level had been reduced from 15% to be in line with the contribution available to the wider workforce. They can elect to be paid the pension contribution in cash subject to a deduction in respect of employer’s National Insurance contributions.

## Benefits

The Company provides life assurance, membership of the Group’s healthcare insurance scheme, critical illness insurance and travel insurance to the Executive Directors and the Non-executive Chairman and Founder. These benefits do not form part of their pensionable earnings.

## Executive Directors’ service contracts

The service contracts for the Executive Directors are terminable by either the Company or the Executive Directors on not less than six months’ notice. There are no predetermined special provisions for Executive Directors with regard to compensation in the event of loss of office.

## Non-executive Directors’ terms of appointment

David Bezem was appointed a Non-executive Director of the Company for an initial period of three years from the IPO in December 2014. His appointment was extended for further three year periods on 21 December 2017 and again on 20 December 2020. On 1 September 2023 the Board resolved to extend his term on a rolling annual basis when the current term ends at the next Annual General Meeting. Naomi Climer was appointed a Non-executive Director on 25 May 2018 for an initial period of three years, which expired on 24 May 2021 and was extended for a further period of three years on that date. Mike Butterworth was appointed a Non-executive Director on 1 January 2022 for an initial period of three years. Phil Dudderidge was appointed a Non-executive Director on 1 January 2022 for an initial of period of three years. All Directors appointments are subject to approval by shareholders annually at the AGM.

The appointment letters for the Non-executive Directors provide that no compensation is payable on termination. The appointments are terminable by the Company or the Non-executive Directors on six months’ notice.

## Directors’ emoluments table

| Executive Directors | | Salary/ fees £’000 | Other taxable benefits £’000 | Annual bonus £’000 | Pension contribution £’000 | Total £’000 |
|---|---|---|---|---|---|---|
| Tim Carroll[1] | FY22 | 297 | 3 | 60 | 38 | 398 |
| | FY23 | 380 | 3 | 232 | 10 | 625 |
| Sally McKone[2] | FY22 | 233 | – | 46 | 30 | 309 |
| | FY23 | 270 | 1 | 205 | 7 | 483 |
| Phil Dudderidge[3] | FY22 | 63 | 2 | – | – | 65 |
| | FY23 | – | – | – | – | – |
| Non-executive Directors | | | | | | |
| Phil Dudderidge[3] | FY22 | 126 | 3 | – | – | 129 |
| | FY23 | 192 | 5 | | | 197 |
| David Bezem[4] | FY22 | 55 | – | – | – | 55 |
| | FY23 | 57 | – | – | – | 57 |
| Naomi Climer[5] | FY22 | 52 | – | – | – | 52 |
| | FY23 | 57 | – | – | – | 57 |
| Mike Butterworth[6] | FY22 | 37 | – | – | – | 37 |
| | FY23 | 57 | – | – | – | 57 |
| Paul Dean[6] | FY22 | 18 | – | – | – | 18 |
| | FY23 | – | – | – | – | – |

1 The bonus for Tim Carroll comprises £155,200 paid in cash (FY22: £nil), £38,600 taken as shares (FY22: £29,651) and £38,600 in the form of matching shares (FY22: £29,651).

The pension contribution was taken as additional income net of the appropriate percentage of income tax and Employer’s National Insurance which would not otherwise have fallen due.

2 The bonus for Sally McKone comprises £70,200 (FY22: £nil) paid in cash, £67,500 taken as shares (FY22: £23,256) and £67,500 in the form of matching shares (FY22: £23,256).

3 The remuneration for Phil Dudderidge comprises a Chairman’s fee/salary of £192,000 (FY22: £189,000). Effective 1 January 2022, Phil moved from Executive Chairman to Non-Executive Chairman and his fee/salary has been pro rated accordingly for FY22.

4 The remuneration for David Bezem comprises a basic fee of £47,000 per annum for his role as Non-executive Director of the Group and an additional £10,000 per annum for his role as Senior Independent Director.

5 The remuneration for Naomi Climer comprises a basic fee of £47,000 per annum for her role as Non-executive Director of the Group and an additional £10,000 per annum for her role as Chair of the Remuneration Committee.

6 Mike Butterworth joined the Group as Non-executive Director from 1 January 2022, following the resignation of Paul Dean. Remuneration for Mike comprises a basic fee of £47,000 per annum for his role as Non-executive Director of the Group and an additional £10,000 per annum for his role as Chair of the Audit Committee.

## Approval

This report was approved by the Directors and signed by order of the Board.

**Naomi Climer**
Chair of the Remuneration Committee

28 November 2023

# Directors' Report

## For the year ended 31 August 2023

The Directors present their report and audited financial statements for the year ended 31 August 2023.

Focusrite plc (the 'Company') is listed on the Alternative Investment Market ('AIM'), a market operated by the London Stock Exchange.

Pursuant to section 414c, Companies Act 2006, certain information required to be included in the Directors' Report has been included in the Strategic Report:

- information in respect of employee matters (including implementing hybrid working, details on sharing best practice across the Group, remaining focused on employee engagement and our approach to ongoing employee learning and development) (see People on page 52);
- likely future developments (see Chief Executive's Report on page 24);
- risk management (see Principal Risks and Uncertainties on page 36);
- details on how the Directors have had regard to the need to foster business relationships with stakeholders (see page 59); and
- greenhouse gas emissions (see pages 44 to 51).

## AGM Notice

The Company's Annual General Meeting ('AGM') will be held at Artisan, Hillbottom Road, High Wycombe HP12 4HJ on Friday, 19 January 2024 at 12 noon.

## Capital – shares and major shareholders

Details of the Company's share capital are shown in note 29 to the financial statements.

As at the financial year end 31 August 2023, the Company had 59,211,639 ordinary shares of £0.001 each in issue (31 August 2022: 58,661,639). The shares are traded on AIM, a market operated by the London Stock Exchange. The rights and obligations attached to the shares are set out in the Company's Articles of Association which are available at focusriteplc.com/investors/aim-rule-26.

As at 5 October 2023, the Company had been notified of the following substantial interests in 3% or more of its ordinary shares:

| Shareholder | 5 October 2023 | % IC |
|---|---|---|
| Focusrite Plc Directors & Related Parties (London) | 19,379,531 | 32.73 |
| Canaccord Genuity Wealth Management (London) | 4,788,213 | 8.09 |
| Sanford DeLand Asset Management (Manchester) | 4,281,000 | 7.23 |
| Liontrust Asset Management (London) | 4,260,268 | 7.20 |
| Charles Stanley (London) | 4,147,193 | 7.00 |
| abrdn (Standard Life) (Edinburgh) | 3,318,139 | 5.60 |
| Investec Wealth & Investment (London) | 2,078,600 | 3.51 |

Note: These holdings may have changed since the Company was notified. Notification of any change is not required until the next notifiable threshold is crossed.

As at 31 August 2023 the EBT held 624,173 ordinary shares of £0.001 each for the satisfaction of future vesting share options (2022: 262,929). The EBT has waived its right to dividends.

Details of ordinary shares under option in respect of the Company's share schemes are shown in note 32 to the financial statements.

The Articles of Association do not contain any restrictions on the transfer of ordinary shares in the capital of the Company other than the usual restrictions, which are applicable where a share instrument is not duly stamped or certified as exempt from stamp duty, is in respect of more than one class of share, relates to joint transferees and such transfer is in favour of more than four such transferees, or relates to shares that are not fully paid. The rules of the CSOP set out the consequences in the event of a change of control.

## Corporate governance

The Company's statement on corporate governance can be found in the Corporate Governance Report on pages 66 to 69. The Corporate Governance Report forms part of this Directors' Report and is incorporated into it by cross-reference.

## Directors and their interests

Directors in the year ended 31 August 2023:

Philip Dudderidge

Timothy Carroll

Sally McKone

David Bezem

Naomi Climer

Mike Butterworth

Details of each Director's contractual arrangements, including notice periods, are included as part of the Directors' Remuneration Report on pages 73 to 77 and that information is incorporated by reference into the Directors' Report. The Directors' shareholdings can be viewed on the Focusrite plc website focusriteplc.com/investors/significantshareholders.

Directors are subject to annual re-election in line with best practice and details of Directors' remuneration, service agreements and interests in the share capital of the Company are given in the Directors' Remuneration Report on pages 73 to 78.

The Chairman owns a small property, part of which the Group leases. Details are in note 35 to the financial statements. Other than this, no Director has had any material interest in any contract of significance with the Company or any of its subsidiaries during the year under review.

## Dividends

Subject to shareholder approval at the AGM on 19 January 2024, the Board proposes paying a final dividend of 4.5p per ordinary share (2022: 4.15p) on 31 January 2024 to the shareholders on the register at the close of business on 29 December 2023.

## Employees

The Company's strategy is to be a great place to work. Part of this means ensuring adequate provision for the welfare and health and safety of its employees and of other people who may be affected by our activities and the Group is committed to ensuring there are equal opportunities for all employees, irrespective of age, gender, ethnicity, race, religion and belief, sexual orientation, disability and marital status. All People are treated fairly and equally. Applications for employment are reviewed equally, with a focus on applicants' ability, experience and the requirements of the job.

## Ethical business practices

The Company has a zero tolerance approach to bribery and corruption and is committed to ensuring that it has effective processes and procedures in place to counter that risk. A formal anti-bribery policy is in place and training is undertaken annually. The policy is reviewed on a regular basis by the Audit Committee. The anti-bribery policy and whistleblowing policy are reviewed annually by the Audit Committee. The Company is committed to conducting business responsibly and takes action to ensure that our supply chains operate to those same high standards, including in relation to employment practices, workplace conditions and, more specifically, the prevention of forced, bonded and trafficked labour. This is upheld through the Group's policies and processes which are fully supported by the Board. The steps taken to help manage the risks outlined by the legislation are detailed in our Modern Slavery statement which is published annually on our website.

## Going concern

Directors considered the going concern assumption and after careful enquiry and review of available financial information, including detailed projections of profitability and cash flows for a period of at least 12 months ('the going concern period'), the Directors believe that the Group has adequate resources to continue to operate for the going concern period and that it is therefore appropriate to continue to adopt the going concern basis of accounting in the preparation of the consolidated and Company financial statements.

## Shareholder and voting rights

All members who hold ordinary shares are entitled to attend and vote at the AGM.

The Notice of Meeting specifies the deadlines for exercising voting rights.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and voting rights. There are no restrictions on the transfer of ordinary shares in the Company other than certain restrictions imposed by laws and regulations (such as insider trading laws and market requirements relating to closed periods) and requirements of internal rules and procedures whereby Directors and certain employees of the Company require prior approval to deal in the Company's securities.

## Statement as to disclosure of information to the auditor

The Directors have confirmed, as far as they are aware, that there is no relevant audit information of which the auditor is unaware. The Directors have individually confirmed that they have taken all reasonable steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor. The auditor, KPMG LLP, has indicated its willingness to be reappointed and, in accordance with Section 489 of the Companies Act 2006, a resolution for reappointment will be proposed at the AGM.

## Non-financial and sustainability information statement

We are now in scope of the UK's Climate-related Financial Disclosures (CFD) framework (see page 48), aligned with the Task Force on Climate-related Disclosures. In meeting the requirements of the CFD we have concluded that our disclosures are also consistent with the TCFD recommended disclosures.

By order of the Board

**Francine Godrich**
Company Secretary

28 November 2023

# Statement of Directors' Responsibilities in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under the AIM Rules of the London Stock Exchange, they are required to prepare the Group financial statements in accordance with UK-adopted International Accounting Standards ('IAS') and applicable law and they have elected to prepare the Parent Company financial statements with UK accounting standards and applicable law, including FRS 101 Reduced Disclosure Framework.

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 Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- for the Group financial statements, state whether they have been prepared in accordance with UK-adopted International Accounting Standards;
- for the Parent Company financial statements, state whether they have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101');
- assess the Group and Parent 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 Group or the Parent 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 Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its 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 Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a strategic report and a Directors' report that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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# Independent Auditor's Report to the members of Focusrite plc

## 1. Our opinion is unmodified

We have audited the financial statements of Focusrite plc ("the Company") for the year ended 31 August 2023 which comprise the the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement, the Company Balance Sheet, the Company Statement of Changes in Equity and the related notes, including the accounting policies in note 3.

**In our opinion:**

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 August 2023 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- the financial statements 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 believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed other entities of public interest.

During 2023, we identified that a KPMG member firm had provided preparation of local GAAP financial statement services over the period FY18 to FY22 to a Group entity that is a residual component and therefore not in scope for the Group audit. The services, which have been terminated, were administrative in nature and did not involve any management decision-making or bookkeeping. The work was undertaken after the Group statutory audit opinion was signed by KPMG LLP for each of the impacted financial years and had no direct or indirect effect on Focusrite plc's consolidated financial statements.

In our professional judgment, we confirm that based on our assessment of the breach, our integrity and objectivity as auditor has not been compromised and we believe that an objective, reasonable and informed third party would conclude that the provision of this service would not impair our integrity or objectivity for any of the impacted financial years. The audit committee concurred with this view.

| Overview | | |
|---|---|---|
| **Materiality:**<br>Group financial statements as a whole | | £1.1m (2022: £1.3m)<br>4.8% (2022: 4.3%) of Group profit before tax |
| **Coverage** | | 82% (2022: 91%) of Group profit before tax |
| **Key audit matters** | | **vs 2022** |
| **Recurring risks** | Revenue recognition | ↔ |
| | Recoverability of Parent Company's investment in subsidiaries and debt due from Group entities | ↔ |
| **Event driven** | Valuation of acquired intangible assets | ↓ |

# Independent Auditor's Report to the members of Focusrite plc continued

## 2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows (unchanged from 2022):

| | The risk | Our response |
|---|---|---|
| **Revenue recognition**<br>(£178.5m; 2022: £183.7m)<br>*Refer to page 71 (Audit Committee Report), page 95 (accounting policy) and page 104 (financial disclosures).* | **2023 revenue:**<br>There continues to be pressure on the Group to meet the performance expectations of the wider stakeholder Group, including investors.<br>The majority of the Group's sales arrangements are straightforward, with revenue being recognised at the point of despatch, and therefore requiring little judgement and estimation. The risk is specifically relating to the incentive for management to manipulate the results in order to achieve those performance expectations.<br>As a result, there is a risk that management may override controls intentionally to misstate revenue transactions by manipulating the timing of revenue recognition. | We performed the detailed tests below rather than seeking to rely on any of the Group's controls because our knowledge of the design of these controls, and related IT controls indicated that we would not be able to obtain the required evidence to support reliance on controls.<br>Our procedures included:<br>– **Tests of details:** We inspected the terms of the contracts with a sample of key customers to understand whether there were any conditions which needed to be taken into account as part of the revenue recognised on sales to these customers;<br>– **Tests of details:** We inspected a sample of sales close to the year end, and vouched these to supporting documentation such as delivery notes, to assess whether revenue had been correctly recognised in line with the specific incoterms of that customer. For certain in-scope components, these sales were selected using a risk-based approach which highlighted customers with an abnormal value or volume of transactions close to the year end, compared to their activity throughout the year. For the other in-scope components, we identified a high-risk population by reference to agreed incoterms, and selected a statistical sample from this population for testing;<br>– **Tests of details:** We obtained direct confirmations from a sample of customers to verify the total revenue recognised in the year. These customers were selected using a risk based approach which highlighted customers with large volume of transactions close to the year end, compared to their activity throughout the year; and<br>– **Test of details:** We assessed whether credit notes issued after year end are recognised in the correct period. |

| | The risk | Our response |
|---|---|---|
| **Valuation of acquired identifiable intangible assets**<br>(£5.6m; 2022: £6.5m)<br>*Refer to page 71 (Audit Committee Report), page 101 (accounting policy) and page 103 (financial disclosures).* | **Subjective valuation:**<br>During the year ended 31 August 2023, the Group acquired a 100% equity interest in Sonnox Limited for a total consideration of £9.1m. The fair values of identifiable net assets acquired on the date of acquisition amounted to £6.4m, including identifiable intangibles of £5.6m, with goodwill arising from the acquisition amounting to £2.7m.<br>The Group exercised both judgement in selecting the most appropriate valuation method for the identifiable intangible assets acquired, as well as estimation in the value of those intangible assets. Although judgement and estimation were exercised by management as part of the process, we do not consider this judgement and estimation to be significant in the context of our audit due to the level of the intangible assets acquired, the involvement of management's experts and the valuation method used in valuing the intangible assets acquired. However, as a result of the level of audit work carried out in relation to the acquisition, it is considered to be an area of significance in the audit of the financial statements of the current period. | We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.<br>Our procedures included:<br>– **Tests of details:** We identified the key assumptions used in the value in use model by performing sensitivity analysis, and challenged the key assumptions of revenue growth and discount rate by reference to external evidence such as market reports, as well as evaluating management's ability to forecast by comparing previous years' budgets to actual results;<br>– **Assessment of management's expert:** We carried out an assessment as to whether the experts engaged by management had the necessary competence to carry out the valuation, whether the scope was in line with our expectations, and whether they were independent;<br>– **Tests of details:** We read the acquisition agreements and assessed whether the assets and liabilities acquired reflect the contractual terms;<br>– **Tests of details:** We evaluated the valuation methodology and assumptions used by the Group. This included challenging the key assumptions linked to the assets acquired, and the basis of their valuation;<br>– **Our valuation expertise:** We engaged our internal valuation specialist to assist us in our assessment of the fair value attributed to the acquired intangible assets; and<br>– **Assessing transparency:** We assessed the adequacy of the Group's disclosures in respect of the valuation of acquired intangibles in Note 6 to the financial statements. |

# Independent Auditor's Report to the members of Focusrite plc continued

## 2. Key audit matters: our assessment of risks of material misstatement continued

| | The risk | Our response |
|---|---|---|
| **Recoverability of Parent Company's investment in subsidiaries and debt due from Group entities**<br>(Investment balance £70.2m; 2022: £61.1m), (Receivables balance £34.1m; 2022: £36.7m).<br>*Refer to page 71 (Audit Committee Report), page 127 (accounting policy) and page 129 (financial disclosures).* | **Low risk, high value:**<br>The carrying amount of the Parent Company's investments in subsidiaries represents 67% (2022: 62%) of the Company's total assets. In addition to this, the carrying amount of the intra-group debtor balance represents 32% (2022: 37%) of the Parent Company's total assets.<br>The recoverability of the investments in subsidiaries and the intra-group debtors is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the Parent Company financial statements, this is considered to be the area that had the greatest effect on our overall Parent Company audit.<br>The risk is considered to relate to the carrying value of all investments in subsidiaries and the debt due from Group companies. | We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.<br>Our procedures included:<br>– **Tests of details:** Comparing the carrying amount of 100% of investments and intra-group debtor balances with the net assets of the relevant subsidiary included in the Group consolidation, to identify whether the net asset value, being an approximation of the minimum recoverable amount, was in excess of the carrying amount and assessing whether those subsidiaries have historically been profit making; and<br>– **Tests of details:** When the net assets of the relevant subsidiary was insufficient to support the carrying value, we evaluated the impairment model prepared for the relevant subsidiary in order to assess if there was an impairment. This included challenging the key assumptions used in the value in use calculations; and<br>– **Assessing subsidiary audits:** Assessing the audit work performed by the subsidiary audit team and considering the results of that work on the subsidiary's net assets. |

## 3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £1.1m (2022: £1.3m), determined with reference to a benchmark of Group profit before tax of which it represents 4.8% (2022: 4.3%).

Materiality for the Parent Company financial statements as a whole was set at £0.6m (2022: £0.7m), determined with reference to a benchmark of Parent Company total assets, of which it represents 0.6% (2022: 0.7%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality for the Group was set at 65% (2022: 75%) of materiality for the financial statements as a whole, which equates to £0.72m (2022: £0.98m). We applied this percentage in our determination of performance materiality based on the level of identified misstatements and control deficiencies during the prior period.

Performance materiality for the Parent Company was set at 75% (2022: 75%) of materiality for the financial statements as a whole, which equates to £0.41m (2022: £0.53m). We applied this percentage in our determination of performance materiality for the Parent Company because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.06m (2022: £0.07m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's seventeen (2022: sixteen) reporting components, we subjected five (2022: five) to full scope audits for Group purposes.

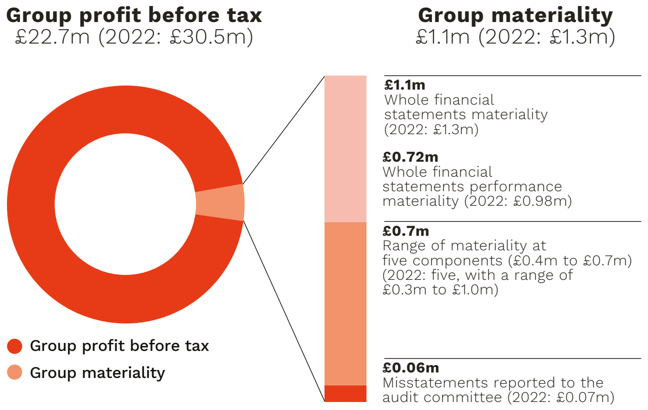
The components within the scope of our work accounted for the percentages illustrated opposite.

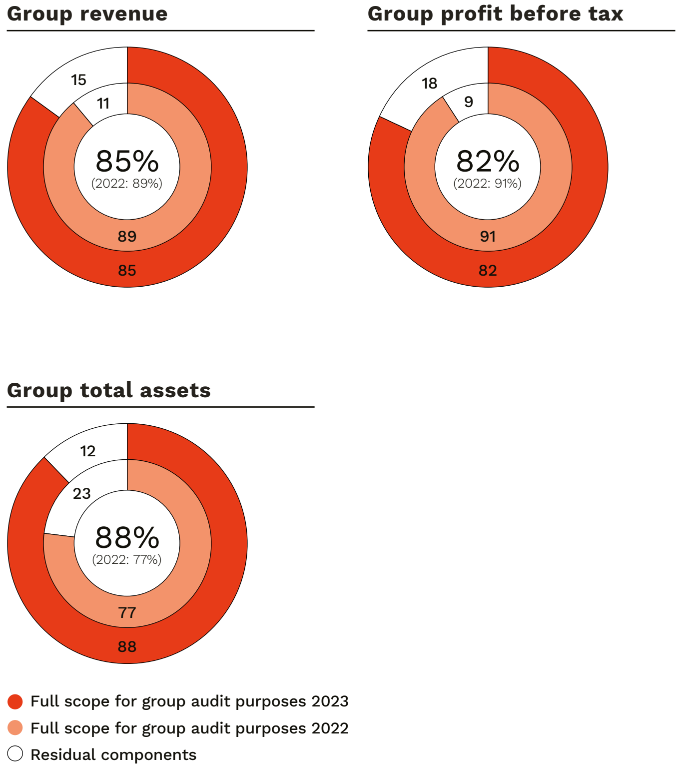
The remaining 18% (2022: 11%) of total Group revenue, 16% (2022: 9%) of Group profit before tax and 12% (2022: 23%) of total Group assets is represented by twelve (2022: eleven) reporting components, none of which individually represented more than 9% (2022: 1%) of any of total Group revenue, Group profit before tax or total Group assets. For these components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team instructed the component auditor as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £0.4m to £0.7m (2022: £0.3m to £1.0m), having regard to the mix of size and risk profile of the Group across the components. The work on one of the five components (2022: one of the five components) was performed by the component auditor and the rest, including the audit of the Parent Company, was performed by the Group team.

The scope of the audit work performed was predominately substantive as we placed limited reliance upon the Group's internal control over financial reporting.

The Group team visited two (2022: one) component locations in Germany and the US, to assess the audit risk and strategy. Video conference meetings were also held with KPMG Germany. The Group team also visited a US component and held meetings with management. At these visits and meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed.





# Independent Auditor's Report to the members of Focusrite plc continued

## 4. Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group and 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 their 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 used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources and metrics relevant to debt covenants over this period were:

- the ability to maintain and grow customer demand
- the ability to maintain profit margins
- the maintenance of relationships with key distributors

We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the degree of downside assumption that, individually and collectively, could result in a liquidity issue, taking into account the Group's current and projected cash and facilities (a reverse stress test).

We considered whether the going concern disclosure in note 1 to the financial statements gives a full and accurate description of the Directors' assessment of going concern, including the identified risks and, dependencies.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 1 to be acceptable.

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 above conclusions are not a guarantee that the Group or the Company will continue in operation.

## 5. Fraud and breaches of laws and regulations – ability to detect

*Identifying and responding to risks of material misstatement due to fraud*

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- enquiring of Directors and the audit committee, and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- reading Board and Audit Committee minutes.
- considering remuneration incentive schemes and performance targets for management including the EBITDA target for management remuneration.
- using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the Group audit team to the full scope component audit team of relevant fraud risks identified at the Group level and requests to the full scope component audit team to report to the Group audit team any instances of fraud that could give rise to a material misstatement at the Group level.

As required by auditing standards, and taking into account possible pressures to meet profit targets due to market expectations or personal incentives, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular:

- the risk that Group and component management may be in a position to make inappropriate accounting entries;
- the risk that revenue from sales of products are overstated through recording revenues in the wrong period by overriding controls intentionally to misstate revenue transactions or by manipulating the timing of revenue recognition.

We did not identify any additional fraud risks.

Further detail in respect of the revenue recognition risk is set out in the key audit matter disclosures in section 2 of this report.

We also performed procedures including:

- identifying journal entries and other adjustments to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included journals with unusual account pairings.
- assessing whether the judgments made in making accounting estimates are indicative of a potential bias.

*Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations.*

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the Directors and other management (as required by auditing standards), and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to full scope component audit teams of relevant laws and regulations identified at the Group level, and a request for full scope component auditors to report to the Group audit team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at the Group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, data protection laws, anti-bribery, employment law, intellectual property law, and certain aspects of company legislation recognising the nature of the Group's activities.

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

*Context of the ability of the audit to detect fraud or breaches of law or regulation*

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

## 6. We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information 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 other information.

**Strategic Report and Directors' Report**

Based solely on our work on the other information:

- 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.

## 7. We have nothing to report on the other 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 by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company 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.

## 8. Respective responsibilities

*Directors' responsibilities*

As explained more fully in their statement set out on page 79, the Directors are responsible for: the preparation of the financial statements including 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 Group and, Parent 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 Group or the Parent 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 ISAs (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.

## 9. The purpose of our audit work and to whom we owe our responsibilities

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.

**James Tracey (Senior Statutory Auditor)**
**for and on behalf of KPMG LLP, Statutory Auditor**
Chartered Accountants
One Snowhill, Snow Hill Queensway
Birmingham B4 6GH

28 November 2023

# Consolidated Income Statement

## For the year ended 31 August 2023

| | Note | **2023**<br>**£'000** | 2022<br>£'000 |
|---|---|---|---|
| Revenue | 7 | **178,465** | 183,733 |
| Cost of sales | | **(93,616)** | (100,453) |
| **Gross profit** | | **84,849** | 83,280 |
| Administrative expenses | | **(60,506)** | (54,619) |
| **Adjusted EBITDA[1] (non-GAAP measure)** | | **38,568** | 41,663 |
| Depreciation and amortisation | | **(8,087)** | (6,991) |
| Administrative Adjusting items: | | | |
| Amortisation of acquired intangible assets | 15 | **(4,451)** | (5,116) |
| Other adjusting items – included in administrative expenses | 15 | **(1,687)** | (895) |
| **Operating profit** | | **24,343** | 28,661 |
| Finance income | 11 | **770** | 2,286 |
| Finance costs | 12 | **(2,365)** | (398) |
| **Profit before tax** | | **22,748** | 30,549 |
| Income tax expense | 16 | **(4,951)** | (5,773) |
| **Profit for the period from continuing operations** | | **17,797** | 24,776 |
| | | | |
| **Earnings per share** | | | |
| Basic (pence per share) | 18 | **30.4** | 42.5 |
| Diluted (pence per share) | 18 | **30.2** | 42.1 |

The accompanying notes on pages 93 to 124 form part of these financial statements.

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[1] Comprising earnings adjusted for interest, taxation, depreciation and amortisation. See notes 5 and 15 to the Financial Statements for further detail.

# Consolidated Statement of Comprehensive Income

## For the year ended 31 August 2023

| | Note | **2023**<br>**£'000** | 2022<br>£'000 |
|---|---|---|---|
| **Profit for the period (attributable to equity shareholders)** | | **17,797** | 24,776 |
| **Items that may be subsequently reclassified to the income statement** | | | |
| Exchange losses on translation of foreign operations | | **(1,742)** | (486) |
| Gain (loss) on forward exchange contracts | | **784** | (1,009) |
| Exchange loss acquired amortisation | | **(18)** | – |
| Tax on hedging instrument | | **(186)** | 199 |
| **Total comprehensive income for the period** | | **16,635** | 23,480 |

The accompanying notes on pages 93 to 124 form part of these financial statements.

# Consolidated Statement of Financial Position

## As at 31 August 2023

| | Note | 2023<br>£'000 | 2022<br>£'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Goodwill | 19 | **16,138** | 13,728 |
| Other intangible assets | 20 | **66,709** | 61,964 |
| Property, plant and equipment | 21 | **12,495** | 10,870 |
| Deferred tax assets | 25 | **533** | 938 |
| **Total non-current assets** | | **95,875** | 87,500 |
| **Current assets** | | | |
| Inventories | 23 | **55,256** | 48,340 |
| Trade and other receivables | 24 | **32,384** | 28,520 |
| Cash and cash equivalents | 31 | **26,787** | 12,758 |
| Current tax asset | | **–** | 413 |
| Derivative financial instruments | 34 | **491** | – |
| **Total current assets** | | **114,918** | 90,031 |
| **Current liabilities** | | | |
| Trade and other payables | 27 | **(39,703)** | (36,348) |
| Other liabilities | 26 | **(1,761)** | (1,641) |
| Current tax liabilities | | **(2,619)** | (1,066) |
| Provisions | 28 | **(1,270)** | (1,840) |
| Bank loan | 34 | **(28,093)** | (13,054) |
| Derivative financial instruments | 34 | **–** | (293) |
| **Total current liabilities** | | **(73,446)** | (54,242) |
| **Net current assets** | | **41,472** | 35,789 |
| **Total assets less current liabilities** | | **137,347** | 123,289 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 25 | **(10,824)** | (9,130) |
| Other liabilities | 26 | **(8,071)** | (8,843) |
| **Total non-current liabilities** | | **(18,895)** | (17,973) |
| **Total liabilities** | | **(92,341)** | (72,215) |
| **Net assets** | | **118,452** | 105,316 |
| **Capital and reserves** | | | |
| Share capital | 29 | **59** | 59 |
| Share premium | 30 | **115** | 115 |
| Merger reserve | 30 | **14,595** | 14,595 |
| Merger difference reserve | 30 | **(13,147)** | (13,147) |
| Translation reserve | 30 | **(2,757)** | (1,015) |
| Hedging reserve | 30 | **491** | (293) |
| Employee Benefit Trust ('EBT') reserve | 30 | **(1)** | (1) |
| Retained earnings | | **119,097** | 105,003 |
| Equity attributable to the owners of the Company | | **118,452** | 105,316 |
| **Total equity** | | **118,452** | 105,316 |

The financial statements were approved by the Board of Directors and authorised for issue on 28 November 2023. They were signed on its behalf by:

**Sally McKone**
Chief Financial Officer

The company number of Focusrite plc is 09312676

The accompanying notes on pages 93 to 124 form part of these financial statements.

# Consolidated Statement of Changes in Equity

## For the year ended 31 August 2023

| | Share capital £'000 | Share premium £'000 | Merger reserve £'000 | Merger difference reserve £'000 | Translation reserve £'000 | Hedging reserve £'000 | EBT reserve £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|---|
| Balance at 1 September 2021 | 59 | 115 | 14,595 | (13,147) | (529) | 716 | (1) | 82,539 | 84,347 |
| Profit for the period | | | | | | | | 24,776 | 24,776 |
| Other comprehensive income | | | | | (486) | (1,009) | | 199 | (1,296) |
| Total comprehensive income | – | – | – | – | (486) | (1,009) | – | 24,975 | 23,480 |
| Share-based payments deferred tax | – | – | – | – | – | – | – | (1,131) | (1,131) |
| Share-based payments current tax | – | – | – | – | – | – | – | 723 | 723 |
| EBT shares issued | – | – | | | | | | 674 | 674 |
| Share-based payments | – | – | – | – | – | – | – | 1,120 | 1,120 |
| Shares withheld to settle tax obligations | – | – | – | – | – | – | – | (865) | (865) |
| Premium on shares in lieu of bonuses | – | – | – | – | – | – | – | 202 | 202 |
| Dividends paid | | | | | | | | (3,234) | (3,234) |
| Balance at 31 August 2022 | 59 | 115 | 14,595 | (13,147) | (1,015) | (293) | (1) | 105,003 | 105,316 |
| **Profit for the period** | | | | | | | | **17,797** | **17,797** |
| **Other comprehensive income** | **–** | **–** | **–** | **–** | **(1,742)** | **784** | **–** | **(204)** | **(1,162)** |
| **Total comprehensive income** | **–** | **–** | **–** | **–** | **(1,742)** | **784** | **–** | **17,593** | **16,635** |
| **Share-based payments deferred tax** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **5** | **5** |
| **Share-based payments current tax** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(123)** | **(123)** |
| **EBT shares issued** | **–** | **–** | **–** | **–** | **–** | **–** | **1** | **584** | **585** |
| **Share-based payments** | **–** | **–** | **–** | **–** | **–** | **–** | **(1)** | **(246)** | **(247)** |
| **Shares withheld to settle tax obligations** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(216)** | **(216)** |
| **Share-based payments in lieu of bonuses** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **106** | **106** |
| **Dividends paid** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(3,609)** | **(3,609)** |
| **Balance at 31 August 2023** | **59** | **115** | **14,595** | **(13,147)** | **(2,757)** | **491** | **(1)** | **119,097** | **118,452** |

The accompanying notes on pages 93 to 124 form part of these financial statements.

# Consolidated Cash Flow Statement

## For the year ended 31 August 2023

| | Note | 2023<br>£'000 | 2022<br>£'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit for the financial year | | **17,797** | 24,776 |
| Income tax expense | 16 | **4,951** | 5,773 |
| Net interest expense (income) | 11, 12 | **1,595** | (1,888) |
| Loss on disposal of property, plant and equipment | | **187** | 24 |
| Loss on disposal of intangible assets | | **27** | 105 |
| Gain on sale of trademark | | **–** | (830) |
| Amortisation of intangibles | 20 | **9,861** | 9,883 |
| Depreciation of property, plant and equipment | 21 | **2,677** | 2,223 |
| Other non-cash items | | **(229)** | (369) |
| Share-based payments (credit) charge | 32 | **(246)** | 1,313 |
| **Operating cash flow before movements in working capital** | | **36,620** | 41,010 |
| Increase in trade and other receivables | | **(3,599)** | (12,316) |
| Increase in inventories | | **(6,916)** | (27,591) |
| Increase in trade and other payables | | **2,922** | 12,988 |
| **Operating cash flows before interest and tax** | | **29,027** | 14,091 |
| Net interest paid | | **(1,699)** | (330) |
| Income tax paid | | **(1,856)** | (3,380) |
| **Cash generated by operations** | | **25,472** | 10,381 |
| Net foreign exchange movements | | **860** | (1,918) |
| **Net cash from operating activities** | | **26,332** | 8,463 |
| **Investing activities** | | | |
| Purchase of property, plant and equipment | 21 | **(3,204)** | (1,045) |
| Purchase of intangible assets | 20 | **(2,024)** | (3,095) |
| Capitalised R&D costs | | **(9,163)** | (8,368) |
| Proceeds from disposal of intangible assets | | **5** | 830 |
| Acquisition of business, net of cash acquired | 6 | **(7,153)** | (10,923) |
| **Net cash used in investing activities** | | **(21,539)** | (22,601) |
| **Financing activities** | | | |
| Proceeds from loans and borrowings | 34 | **15,226** | 13,228 |
| Payment of lease liabilities | 26 | **(1,427)** | (1,168) |
| Equity dividends paid | | **(3,609)** | (3,234) |
| **Net cash from financing activities** | | **10,190** | 8,826 |
| Net increase (decrease) in cash and cash equivalents | | **14,983** | (5,312) |
| Cash and cash equivalents at the beginning of the year | | **12,758** | 17,339 |
| Foreign exchange movements | | **(954)** | 731 |
| **Cash and cash equivalents at the end of the year** | 31 | **26,787** | 12,758 |

The accompanying notes on pages 93 to 124 form part of these financial statements.

# Notes to the Financial Statements

## For the year ended 31 August 2023

## 1 General information

Focusrite plc (the 'Company'), is a company incorporated in the UK. The consolidated financial statements ('financial statements') as at and for the year ended 31 August 2023 comprised the Company and its subsidiaries (together referred to as the 'Group').

The Group is a business engaged in the development, manufacture and marketing of professional audio and electronic music products.

### Basis of preparation

**Statement of compliance**

The financial statements of the Group and the Company for the year ended 31 August 2023 are presented in pounds ('GBP' thousands; £'000).

The Group financial statements have been prepared in accordance with UK-adopted International Accounting Standards ('IAS') and the Company has elected to prepare its Parent Company accounts in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including Financial Reporting Standards ('FRS') 101 *Reduced Disclosure Framework*.

These financial statements were authorised for issue by the Company's Board of Directors on 28 November 2023.

### Going concern

The Board of Directors has a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence and meet their liabilities as they fall due for a period of at least 12 months from the approval of these financial statements (the 'going concern period'). Accordingly, the financial statements have been prepared on a going concern basis.

The Group meets its day-to-day working capital requirements from cash balances and a revolving credit facility ('RCF') of £50.0 million, which was renewed in September 2023 for a four-year period with an option to extend for a further fifth year. The availability of the RCF is subject to continued compliance with certain covenants.

The Directors have prepared projected cash flow forecasts for the going concern period. These forecasts include a severe but plausible downside scenario, which includes potential impacts from risks identified from the business including:

- loss of our largest customer, our distributor for Focusrite and Novation in the US; and
- loss of a key contract manufacturer, potentially due to increased storm intensity, as flagged in our climate risk analysis.

Whilst climate change is considered to bring both risks and opportunities to the Group, as outlined in our ESG section on pages 42 to 58, we consider the quantifiable risk in the short term to relate to increased storm intensity, resulting in the potential loss of a distributor or contract manufacturer and this is included within our scenarios. The increased geopolitical risk which could impact our manufacturing partners in China has also been considered, but has not been modelled, given the considered likelihood and scale of global sanctions would not deem this a plausible scenario.

The base case covers a period of at least 12 months from the date of signing and includes demanding but achievable forecast growth. The forecast has been extracted from the Group's FY24 budget and three-year plan for the remainder of the going concern period.

Key assumptions include:

- future growth assumptions consistent with the business plans of each business unit and adjusted for the annualisation of recent acquisitions;
- working capital requirements in line with historic trends and a stabilisation from the current position;
- continued investment in research and development in all areas of the Group;
- dividends consistent with the Group's dividend policy;
- no additional investment in acquisitions in the forecast period; and
- foreign exchange rates in line with those prevailing as at 31 August 2023.

Throughout the period, the forecast cash flow information indicates that the Group will have sufficient cash reserves and headroom on the loan facility to continue to meet its liabilities throughout the forecast period.

The Directors have modelled severe but plausible downside scenarios of the risks identified above. This model assumes that purchases of stock would, in time, reduce to reflect reduced sales, if they occurred. The Group would also respond to a revenue shortfall by taking reasonable steps to reduce overheads within its control. In this scenario, a draw down from the loan facility of an average of around £30 million for a period of eight months is expected; however, the Group would be expected to remain well within the terms of its loan facility with the leverage covenant (net debt to adjusted EBITDA) in the period not exceeding the maximum of 2.5x.

Separately, as a reverse stress test, the Directors estimate that if the Group were to experience a shortfall in revenue of greater than 35% permanently from the start of the forecast period, leverage could rise to the upper limits allowed by the banking covenants by August 2024. This scenario includes consequential reductions in the purchases of stock and dividends.

However, the Directors' view is that any scenario of a revenue shortfall of greater than the severe yet plausible scenario above is not realistic.

In practice, the Group is still currently experiencing stable levels of consumer registrations and customer demand, and therefore revenue levels have been maintained in line with historic trends since year end. The Group has continued to invest in stock prior to the holiday season, with the Group's net debt balance increasing from a net debt position of £1.3 million reported at year end to approximately net debt of £9.6 million at 16 November 2023, which is expected to improve following the upcoming 2023 holiday season. As a result, the Directors are confident that the Group and Company will have sufficient funds to continue to meet their 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 to the Financial Statements continued

## For the year ended 31 August 2023

## 2 Adoption of new and revised standards

### New and amended standards and interpretations adopted by the Group and Company for the first time in the year ended 31 August 2023

The following amendments and interpretations have been adopted by the Group in the year ended 31 August 2023:

- Amendments to IFRS 3 Business Combinations – Reference to the conceptual framework;
- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets – Onerous contracts – cost of fulfilling a contract;
- Annual improvements to IFRS standards 2018–2020 cycle;
- Amendments to IAS 16 Property, Plant and Equipment – Proceeds before intended use;
- Amendments to IAS 1 Presentation of Financial Statements – Disclosure of accounting policies;

The adoption of these amendments and interpretations has not had a significant impact on the consolidated financial statements.

### Standards, revisions and amendments to standards and interpretations not yet effective and not yet adopted by the Group

The following pronouncements, issued by the IASB, have not yet been endorsed by the UK, are not yet effective and have not yet been adopted by the Group:

- Amendments to IAS 1 Presentation of Financial Statements – Classification of liabilities as current or non-current;
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – Definition of accounting estimates; and
- Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction.
- IFRS 17 Insurance Contracts; and
- Amendments to IFRS 17 and IFRS 19 Initial Application of IFRS 17 and IFRS 9 – Comparative Information.

The standards have been reviewed to assess the impact they will have on future financial statements. No material impact is expected to the accounts and any changes are expected to be limited to changes to disclosures notes only.

## 3 Material accounting policies

The accounting policies set out below have been applied consistently for all periods presented in the financial statements.

Any standards and interpretations that have been issued but are not yet effective, and that are available for early application, have not been applied by the Group in these financial statements.

### Basis of consolidation

The consolidated financial statements include the accounts of the Company and all entities controlled by the Group from the date control commences until the date that control ceases. Control is achieved where the Company:

- has the power over the investee;
- is exposed or has rights to a variable return from the involvement with the investee; and
- has the ability to use its power to affect its returns.

As such, the results of subsidiaries acquired during the year are included in the Consolidated Income Statement from the effective date of acquisition.

The consideration transferred in the acquisition is measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

### Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the ‘acquisition date’). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer’s previously held equity interest (if any) in the entity over the net of the amounts of the identifiable assets acquired and the liabilities assumed. Further information about the assumptions made in measuring fair values of the acquisition of a subsidiary is included in note 6.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to the Group’s cash-generating units (‘CGUs’) expected to benefit from synergies arising from the combination. CGUs to which goodwill has been attributed under IFRS 3 Business Combinations are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

### Revenue recognition

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Having identified the customer, the performance obligations and the transaction price, the revenue is recognised when the Group satisfies the performance obligations.

The value of revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group’s activities. Revenue is shown net of sales taxes and discounts

If a contract includes variable consideration, Focusrite will estimate the amount of consideration to which it will be entitled and present this as a contract liability within Trade and other payables. Variable consideration will take into account discounts, incentives and penalties expected due based on expected value calculated from historic experience and planned future marketing campaigns. We have constrained the revenue recognised to an amount that it is highly probable that a significant reversal will not occur. Due to the fact that the vast majority of sales by Focusrite involve sale of goods, the timing of the revenue recognition is considered in relation to ‘Performance obligations satisfied at a point in time’ (IFRS 15; 38) considering the following factors:

a) The entity has a present right to payment for the asset.
b) The customer has legal title to the asset.
c) The entity has transferred physical possession of the asset.
d) The customer has the significant risks and rewards of ownership of the asset.
e) The customer has accepted the asset.

#### Sale of goods

The Group has three routes to market for the sale of goods: distributors, resellers and direct to end users. These cover all segments and geographical markets. Revenue from sales to distributors, resellers and direct to end users are recognised in line with the terms defined within the contract of sales, as this will define when control is passed to the customer. This is deemed to be in line with the Incoterms of the shipment, which clarify when the customer has accepted the asset and legal title and therefore risk of ownership has passed. For the majority of shipments this occurs on despatch of goods, but may differ depending on the specific shipment terms agreed with the customer. Payment is also due to the Group in line with agreed credit terms at this point.

#### Sale of software

Revenue from the download of apps and paid feature upgrades is recognised upon confirmation of the sale from the app store provider. Perpetual licences are recognised in entirety at the point of sale, monthly subscriptions on a recurring basis when the subscription is due.

### Interest income

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of other income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount on initial recognition.

### Adjusting items

Adjusting items are those items that are unusual because of their size, nature or incidence, and are applied consistently year on year. The Directors consider that these items should be separately identified within their relevant income statement category to enable a full understanding of the Group’s result. Items included are acquisition and restructuring costs, earnout accrual in relation to acquisitions and gains on sales of trademarks. See note 15 for more information on adjusting items.

### Leases

The Group recognises a right-of-use asset and lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-to-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the basis as those of property and equipment. In addition, the right-of-use asset is periodically assessed for impairment triggers and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, if available, otherwise the Group’s incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise fixed payments and variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in index or rate, or if the Group changes its assessment of whether it will exercise an extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets in ‘Property, plant and equipment’ and lease liabilities as ‘Other liabilities’ in the statement of financial position.

# **Notes to the Financial Statements** continued

**For the year ended 31 August 2023**

## 3 Material accounting policies continued

### Foreign currencies

Sterling is the predominant functional currency of the Company and presentation currency for the consolidated financial information.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognised within the Income Statement in the period in which they arise. Exchange differences on revenue are recognised within revenue. Exceptions to this are as follows:

- Exchange differences on transactions entered into to hedge certain foreign currency risks (see below under financial instruments/ cash flow hedges).
- For the purpose of presenting consolidated financial information, exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

For the purpose of presenting consolidated financial information, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income.

### Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

### Equity-settled share-based payments

The Group issues equity-settled payments to certain employees (including Directors). Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

Share options are valued at the date of grant using the Black-Scholes option pricing model for options with non-market vesting conditions attached and a simulation model for options with market vesting conditions attached, and are charged to operating profit over the vesting period of the award with a corresponding credit to retained earnings.

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options, the proceeds received net of attributable transaction costs are credited to share capital and, where appropriate, share premium account.

### Taxation

The tax expense represents the sum of the tax currently payable and deferred tax. It is recognised in the income statement except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income ('OCI').

### Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

### Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are only recognised for taxable temporary differences arising on investments in subsidiaries, where the Group can foresee the reversal of the temporary difference and it is probable that the temporary difference will reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### Tangible and intangible assets

#### Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is recognised so as to write off the cost or valuation of assets less residual value over their useful lives, using the straight-line method, on the following bases:

| | |
|---|---|
| Plant, equipment and tooling | 3 to 5 years |
| Computer equipment | 2 to 3 years |
| Fixtures and fittings | 3 to 5 years |
| Leasehold improvements | 5 to 8 years |
| Land and buildings | 25 years |

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset, and is recognised in the income statement on the transfer of the risks and rewards of ownership.

#### Intangible assets

Intangible assets are amortised over the following periods on a straight-line basis:

| | |
|---|---|
| Internally generated development | 2 to 10 years |
| Purchased intellectual property | 2 years |
| Licences | 2 to 5 years |
| Software | 2 years |
| Trademarks | 10 years |

#### Acquired intangible assets

Intangible assets acquired through a business combination are amortised over the following periods on a straight-line basis:

| Subsidiary | Brand | Developed technology, products and patents |
|---|---|---|
| ADAM Audio | 10 years | 3 years |
| Martin Audio | 20 years | 8 years |
| Sequential | 10 to 15 years | 15 years |
| Linea Research | 15 years | 9 years |
| Sonnox | 10 years | 10 years |

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Group's development of new and enhanced products is recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as a product design);
- the asset is technologically feasible;
- the Group intends to complete the asset and use or sell it;
- adequate technical, financial and other resources are available to complete the asset and use or sell it;
- it is probable and demonstrable that the asset created will generate future economic benefits; and
- the costs of developing this asset can be measured reliably. Costs include payroll costs plus project-specific sub-contractor and materials costs.

Where no internally-generated intangible asset can be recognised, the expenditure is recognised as an expense in the period in which it is incurred.

Assets begin to be amortised once it is determined they are available to generate economic benefit, this is determined from the ability to sell the completed product, on a phased basis from engineering sample to mass production completion.

# **Notes to the Financial Statements** continued

**For the year ended 31 August 2023**

## 3 Material accounting policies continued

### Valuation of investment in subsidiaries for business combination purposes

For the purposes of valuation of the Group's subsidiaries for the purposes of business combinations and reorganisations, the Group applies the acquisition method rather than the book value.

### Impairment of goodwill and intangible assets with an indefinite useful life

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs.

Recoverable amount is the higher of: (i) fair value less costs to sell; and (ii) value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses (excluding goodwill), the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years for the asset (or CGU). A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Inventory provisions are made where relevant to provide for the costs of inventory held for demonstration or service requirements which may result in their sale at a lower value, or for products with relatively high levels of inventory compared to recent demand assessed on a rolling 12 month basis.

### Trade and other receivables

Trade debtors, which generally have 30- to 60-day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. The Company measures loss allowances at an amount equal to lifetime expected credit loss ('ECL'), except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition, which are measured as 12-month ECL (see the accounting policy on impairment in section (iv) below). Balances are written off when the probability of recovery is assessed as being remote.

### Financial instruments

#### (i) Recognition and initial measurement

Financial instruments included in the financial statements are measured at either fair value or amortised cost. The measurement of this fair value can in some cases be subjective, the Group uses observed market prices and relevant market data where appropriate for the instrument being valued.

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value. A trade receivable without a significant financing component is initially measured at the transaction price.

#### (ii) Classification and subsequent measurement

### Financial assets

#### (a) Classification

On initial recognition, a financial asset is classified as measured at amortised cost or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

### Cash and cash equivalents

Cash and cash equivalents comprise cash balances. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

#### (b) Subsequent measurement and gains and losses

*Financial assets at FVTPL* – these assets (other than derivatives designated as hedging instruments) are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

*Financial assets at amortised cost* – these assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

### Financial liabilities and equity

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called-up share capital and share premium account exclude amounts in relation to those shares.

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

# Notes to the Financial Statements continued

For the year ended 31 August 2023

## 3 Material accounting policies continued

### (iii) Derivative financial instruments and hedging

### Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

### Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

When the forecast transaction subsequently results in the recognition of a non-financial item, the associated cumulative gain or loss is removed from the hedging reserve and is included in the initial carrying amount of the non-financial asset or liability.

For all other hedged forecast transactions, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged expected future cash flows affects profit or loss.

When the hedging instrument is sold, expires, is terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

### (iv) Impairment of financial assets

The Group recognises loss allowances for ECLs on financial assets measured at amortised cost and contract assets (as defined in IFRS 15).

The Group measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition, which are measured as 12-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL. Trade receivables and contract assets with a significant financing component are measured using the general model described above.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

### Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset. The ECL is not material to the Group's financial results.

### Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

### Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

## 4 Judgements and estimations in applying the Group's accounting policies

### Judgements

The following is a critical judgement that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial information.

### Revenue recognition

Stock is sold and revenue recognised when we have satisfied our performance obligations to distributors and dealers. The key judgement required is in the US where the Group has a single distributor: American Music and Sound ('AM&S'). The Group's subsidiary, Focusrite Group US ('FGUS'), works closely with AM&S to market the Group's products and maintain relationships with AM&S' customers.

In the judgement of the Directors, the Group does not have continuing managerial involvement over the goods sold to the degree usually associated with ownership, thereby signalling that AM&S is a principal rather than an agent of the Group. The reasons for this view include the facts that AM&S has the responsibility for providing goods to the customer, responsibility for the collection of payments from its customers and no right of return to the Group. AM&S can also set its prices to customers (subject to an minimum agreed price). Additionally, under the terms of sale, control and legal title of goods is passed to AM&S before it is passed to the final customer. At the point at which control passes an estimation is made of the ultimate selling price to be recognised, taking into account the impact of potential future activity which may impact the consideration, such as rebates, promotions and credits. This judgement is consistent with prior periods.

### Other judgements and estimates

The Directors' have also applied the following judgements and estimates to these financial statements, but consider them to not be significant in this financial year.

### Valuation of acquired intangible assets

Since most intangibles acquired through business combinations are not traded on an open market, the absence of a market price means that the valuations are normally based on a discounted cash flow approach. This relies on setting revenue forecasts, growth rates, asset-specific discount rates, useful economic life assumptions and an estimate of tax amortisation benefits arising from the recognition of these intangibles. In most circumstances, the valuations are prepared by independent valuation firms with knowledge of the market in which the Group operates. Amounts recognised on acquisitions through business combinations totalled £5,553,000 (2022: £6,825,000). See note 6 to the Group financial statements.

The Directors have also applied the following judgements and estimates to these financial statements, but consider them to not be significant in this financial year.

### Stock manufactured and distributed by a third party

Sequential has a relationship with its key manufacturer to purchase raw material, to build product and distribute its stock to customers. Sequential is not the contract manufacturer's sole customer. It has been determined for the purposes of the financial statements that the risks and rewards in relation to products that are both work in progress and finished goods not yet shipped to customers are Sequential's, and therefore should be recognised as inventory, with a corresponding entry to liabilities for the payment due to the manufacturer. As raw materials have alternative use to the manufacturer, and there is no requirement for Sequential to compensate the manufacturer for unused or unusable raw materials, it has been determined that they are not in substance under Sequential's control. Therefore no accrual is made for raw materials.

The amount accrued at year end for work in progress and finished goods held by the contract manufacturer was £1,802,000 (2022: £1,885,000).

### Impairment of intangible assets with indefinite lives

The Group has intangible assets with indefinite lives and therefore tests annually whether intangible and tangible fixed assets have suffered any impairment. The recoverable amount of the CGU is based on the higher of value in use and the fair value less cost of disposal. Value in use is calculated from cash flow projections over three years using data from the Group's latest internal forecasts and extrapolated further using estimated long-term growth rates. Key assumptions are disclosed in note 19.

### Capitalisation and recoverability of internally-generated intangible assets

Management considers both the capitalisation and the recoverability of its internally-generated intangible asset for development costs are sources of estimation uncertainty; balances are included in the balance sheet at 31 August 2023 of £16,538,000 (2022: £13,055,000). The amount capitalised in the year was £8,599,000 (2022: £7,851,000). For the majority of these costs, amounts are based on timesheets and tracked costs, for the remainder management applied estimates of amounts capitalised to certain projects in accordance with IAS 38 Intangible Assets. Any sensitivity on the remaining amounts would not be materially different from the actuals. These projects continue to progress in a satisfactory manner, and customer reaction has reconfirmed management's previous estimates of anticipated revenues from the projects.

Management is confident that the carrying amount of the asset will be recovered in full. This situation will be closely monitored, and adjustments made in future periods if future market activity indicates that such adjustments are appropriate.

# **Notes to the Financial Statements** continued

**For the year ended 31 August 2023**

## 5 Alternative performance measures

The Group has applied certain alternative performance measures ('APMs') within these financial results. A reconciliation to GAAP measures is provided in the table below, or is cross-referenced to tables within the Financial Review section. The APMs presented are used in discussions with the Board, management and investors to aid the understanding of the performance of the Group. The Group considers that the presentation of APMs allows for improved insight to the trading performance of the Group. The Group considers that the term 'Adjusted', together with an adjusting items category, best reflects the trading performance of the Group.

Adjusting items are those items that are unusual because of their size, nature or incidence, and are applied consistently year on year. The Directors consider that these items should be separately identified within their relevant income statement category to enable full understanding of the Group's results. Items included are acquisition costs, earnout payable to employees of acquired businesses, profit on sale of trademarks and restructuring costs.

The following APMs have been used in these financial results:

- Organic constant currency growth – this is calculated by comparing current period revenue with prior period revenue adjusted for current period exchange rates and the impact of acquisitions, shown within the Financial Review.
- Adjusted EBITDA – comprising earnings (operating profit) adjusted for interest, taxation, depreciation, amortisation and adjusting items. This is shown on the face of the income statement.
- Adjusted operating profit – operating profit adjusted for adjusting items. See reconciliation below.
- Adjusted earnings per share ('EPS') – earnings per share excluding adjusting items. See reconciliation below.
- Free cash flow – net increase/(decrease) in cash and cash equivalents excluding net cash used acquisitions, movements on the bank loan and dividends paid. See reconciliation below.
- Underlying free cash flow – as free cash flow but adding back adjusting items. See reconciliation below.
- Net debt – comprising cash and cash equivalents, overdrafts and amounts drawn against the RCF including the costs of arranging the RCF. See reconciliation below.

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | **Adjusted EBITDA £'000** | **Adjusted Operating Profit £'000** | **Adjusted Diluted EPS £'000** | Adjusted EBITDA £'000 | Adjusted Operating Profit £'000 | Restated Adjusted Diluted EPS £'000 |
| Reported operating profit | **24,343** | **24,343** | | 28,661 | 28,661 | |
| Reported profit after tax | | | **17,797** | | | 24,776 |
| Add back (deduct): | | | | | | |
| Underlying depreciation and amortisation | **8,087** | **–** | **–** | 6,991 | – | – |
| Amortisation on acquired intangibles | **4,451** | **4,451** | **4,451** | 5,116 | 5,116 | 5,116 |
| Acquisition costs | **367** | **367** | **367** | 565 | 565 | 565 |
| Gain on sale of trademark | **–** | **–** | **–** | (830) | (830) | (830) |
| Earnout in relation to acquisition | **786** | **786** | **786** | 1,160 | 1,160 | 1,160 |
| Restructuring | **534** | **534** | **534** | – | – | – |
| Tax on adjusting items | | | **(1,319)** | | | (1,376) |
| **Adjusted** | **38,568** | **30,481** | **22,616** | 41,663 | 34,672 | 29,411 |
| Weighted average number of total ordinary shares including dilutive impact | | | **58,953** | | | 58,917 |
| Adjusted diluted EPS (p) | | | **38.4** | | | 49.9 |

During the year, the Directors have reconsidered the presentation of the deferred tax credit arising on the amortisation of acquired intangible assets. This previously had not been regarded as an adjusting item. In order to be consistent with the treatment of the amortisation for the relevant assets, it is now considered that the relevant deferred tax credits should be included within the adjusting items for a better understanding of the impact of the amortisation of the acquired assets. Accordingly, the comparative amounts for the affected disclosures have been restated. The impact of this change was to increase the tax credit on adjusting items by £1.2 million in the year to 31 August 2022. Adjusted basic EPS and adjusted diluted EPS both reduced by 2.0 pence for the year to 31 August 2022.

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | **Free cash flow £'000** | **Adjusted free cash flow £'000** | Free cash flow £'000 | Adjusted free cash flow £'000 |
| Net increase/(decrease) in cash and cash equivalents during the year | **14,983** | **14,983** | (5,312) | (5,312) |
| Add back: dividends paid | **3,609** | **3,609** | 3,234 | 3,234 |
| Add back: cash outflow in relation to acquisition of business | **7,153** | **7,153** | 10,923 | 10,923 |
| Change in bank loan | **(15,226)** | **(15,226)** | (13,228) | (13,228) |
| Add back: adjusting items | **–** | **1,687** | – | 895 |
| **Free cash flow/Adjusted free cash flow** | **10,519** | **12,206** | (4,383) | (3,488) |

| **Definition of net debt** | **2023 Net (debt)/ cash** | 2022 Net (debt)/ cash |
|---|---|---|
| Cash and cash equivalents | **26,787** | 12,758 |
| Bank loan | **(28,192)** | (13,228) |
| RCF arrangement fee | **99** | 174 |
| **Net debt** | **(1,306)** | (296) |

## 6 Acquisition of a subsidiary

On 19 December 2022, the Group completed the acquisition of 100% of the share capital of Sonnox Limited ('Sonnox'). The total gross cash consideration was £9.1 million paid in full on completion. The acquisition was funded by a draw down of £9.2 million on the existing RCF of £40 million with HSBC and NatWest. Sonnox had £1.9 million of cash at the acquisition date such that the net cash consideration was £7.2 million.

Sonnox is a well-established and acclaimed brand in the audio industry. Its range of innovative and award-winning plugins are used in a wide range of audio applications including mixing, mastering, live sound, broadcast, TV and film, and even scientific and forensics projects.

For the period between the acquisition date and 31 August 2023, Sonnox contributed revenue of £1.1 million and a profit before tax of £0.2 million to the Group. If the acquisition had occurred on 1 September 2022, management estimates that Sonnox's revenue would have been £2.4 million and profit before tax for the year would have been £1.2 million.

In FY22, the Group purchased Linea Research for £12,277,000, including cash of £1,354,000, resulting in acquired intangible assets additions of £6,500,000 and goodwill of £3,387,000 arising due to this business combination.

### Acquisition-related costs

The Group incurred acquisition-related costs of £367,000 on legal fees and due diligence costs relating to the acquisition of Sonnox. These have been included in adjusting item costs to give investors a better understanding of the costs related to the acquisition of Sonnox. Additionally, because of their size, nature and the fact that they vary from acquisition to acquisition, the Group considers it a better reflection of the trading performance to show these separately.

### Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired, and liabilities assumed at the date of acquisition:

| **Recognised values on acquisition** | **£'000** |
|---|---|
| Developed technology | 4,700 |
| Technology and patents in development | 450 |
| Brand | 400 |
| Software/website | 3 |
| **Intangible assets** | 5,553 |
| Property, plant and equipment | 36 |
| Cash | 1,942 |
| Working capital | 265 |
| Acquired deferred tax liability | (11) |
| Deferred tax liability | (1,373) |
| **Net identifiable assets and liabilities at fair value** | 6,412 |
| Goodwill recognised on acquisition | 2,683 |
| **Consideration paid** | 9,095 |

The acquired deferred tax liability has been estimated by applying the uplift in asset fair value to the corporate tax rates enacted at the time of acquisition.

### Measurement of fair values

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

| **Assets acquired** | **Valuation technique** |
|---|---|
| Property, plant and equipment | Cost approach. |
| Developed technology | Income approach (multi-period excess earnings method or 'MEEM').<br>The key assumption used is the forecast revenues attributable to the existing asset. |
| Technology and patents in development | Replacement cost approach.<br>The key assumption is the estimated completion percentage. |
| Brand | Income approach (relief from royalty method).<br>The key assumption used is the forecast revenues attributable to the existing asset. |

# Notes to the Financial Statements continued

## For the year ended 31 August 2023

## 6 Acquisition of a subsidiary continued

### Goodwill

The goodwill recognised is attributable to:

- the skills and technical talent of the Sonnox workforce;
- income growth potential from new products, future relationships and a proportion of synergies;
- alignment to the Group's existing customer base; and
- strong strategic fit.

As a result of the strong strategic fit, we expect revenue and cost synergies to result for Focusrite brands as a result of this transaction. Therefore, a proportion of the goodwill and technology and patents in development recognised in this transaction will be attributed to the Focusrite CGU rather than the Sonnox CGU.

### Intangible assets sensitivity analysis

In assessing the estimated useful life of the intangible assets, management considered the sensitivity in the forecast sales on the valuation of the developed technology and brand. The following table details the sensitivity to a 10% increase and decrease in the sales forecast and related cost of sales impact this would have on the valuation of the assets.

| | Valuation impact £'000 | | |
|---|---|---|---|
| | Cost | 10% sales increase | 10% sales decrease |
| **Asset** | | | |
| Developed technology | 4,700 | 482 | (482) |
| Brand | 400 | 43 | (43) |
| Total | 5,100 | 525 | (525) |

## 7 Revenue

An analysis of the Group's revenue by reportable segment and by location of customer is as follows:

| | Year ended 31 August 2023 | | | | Year ended 31 August 2022 | | | |
|---|---|---|---|---|---|---|---|---|
| | North America £'000 | EMEA £'000 | Rest of World £'000 | Total £'000 | North America £'000 | EMEA £'000 | Rest of World £'000 | Total £'000 |
| Focusrite | **45,724** | **29,334** | **11,259** | **86,317** | 47,558 | 30,936 | 18,692 | 97,186 |
| Novation | **6,078** | **6,711** | **3,776** | **16,565** | 8,603 | 8,088 | 3,892 | 20,583 |
| ADAM Audio | **5,657** | **10,072** | **2,720** | **18,449** | 3,964 | 9,036 | 4,797 | 17,797 |
| Sequential | **7,115** | **6,309** | **1,056** | **14,480** | 6,300 | 7,874 | 2,075 | 16,249 |
| Sonnox | **405** | **492** | **242** | **1,139** | – | – | – | – |
| Content Creation | **64,979** | **52,918** | **19,053** | **136,950** | 66,425 | 55,934 | 29,456 | 151,815 |
| Audio Reproduction – Martin Audio | **12,684** | **16,601** | **12,230** | **41,515** | 8,084 | 14,176 | 9,658 | 31,918 |
| Total | **77,663** | **69,519** | **31,283** | **178,465** | 74,509 | 70,110 | 39,114 | 183,733 |

The amount of revenue sold to external customers in the UK was £20,782,000 (2022: £21,830,000).

## 8 Business segments

Information reported to the Board of Directors for the purposes of resource allocation and assessment of segment performance is focused on the main product groups which the Group sells. Similarly, the results of Novation (including Ampify) also meet the aggregation criteria set out in IFRS 8 Segmental Reporting. The Group's reportable segments under IFRS 8 are therefore as follows:

| | | |
|---|---|---|
| Focusrite | – | Sales of Focusrite and Focusrite Pro branded products |
| Novation | – | Sales of Novation or Ampify branded products |
| ADAM Audio | – | Sales of ADAM Audio branded products |
| Martin Audio | – | Sales of Martin Audio, Optimal Audio and Linea Research branded products |
| Sequential | – | Sales of Sequential branded products |
| Sonnox | – | Sales of Sonnox branded products |

### Segment revenues and results

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of the share of central administration costs including Directors' salaries, investment revenue and finance costs, and income tax expense. This is the measure reported to the Board of Directors for the purpose of resource allocation and assessment of segment performance.

Central administration costs comprise principally the employment-related costs and other overheads incurred by the Group. Also included within central administration costs is the credit relating to the share option scheme (note 32) of £282,000 for the year ended 31 August 2023 (2022: charge of £1,313,000).

The following is an analysis of the Group's revenue and results by reportable segment:

| | 2023 £'000 | 2022 £'000 |
|---|---|---|
| **Revenue from external customers** | | |
| Focusrite | **86,317** | 97,186 |
| Novation | **16,565** | 20,583 |
| ADAM Audio | **18,449** | 17,797 |
| Sequential | **14,480** | 16,249 |
| Sonnox | **1,139** | – |
| Martin Audio | **41,515** | 31,918 |
| **Total revenue from external customers** | **178,465** | 183,733 |
| **Segment profit** | | |
| Focusrite | **40,130** | 45,108 |
| Novation | **9,133** | 8,132 |
| ADAM Audio | **9,570** | 8,941 |
| Sequential | **6,705** | 6,819 |
| Sonnox | **1,125** | – |
| Martin Audio | **18,186** | 14,280 |
| Total segment profit | **84,849** | 83,280 |
| Central sales and administrative expenses | **(58,819)** | (53,724) |
| Other income | **–** | 830 |
| Adjusting items | **(1,687)** | (1,725) |
| Operating profit | **24,343** | 28,661 |
| Finance income | **770** | 2,286 |
| Finance costs | **(2,365)** | (398) |
| Profit before tax | **22,748** | 30,549 |
| Tax | **(4,951)** | (5,773) |
| Profit after tax | **17,797** | 24,776 |

The Group's non-current assets, analysed by geographical location, were as follows:

| | 2023 £'000 | 2022 £'000 |
|---|---|---|
| **Non-current assets** | | |
| North America | **8,937** | 21,311 |
| Europe, Middle East and Africa | **86,725** | 66,189 |
| Rest of the World | **213** | – |
| **Total non-current assets** | **95,875** | 87,500 |
| **UK** | **68,867** | 63,543 |

### Information about major customers

Included in the revenues shown for FY23 is £48.1 million (FY22: £51.3 million) attributed to the Group's largest customer, which is located in North America. Amounts owed at the year end by this customer were £10.0 million (FY22: £7.9 million).

# **Notes to the Financial Statements** continued

**For the year ended 31 August 2023**

## 9 Profit for the year

Profit for the year has been arrived at after charging (crediting):

| | | Year ended 31 August | |
|---|---|---|---|
| | Note | **2023<br>£'000** | 2022<br>£'000 |
| Net foreign exchange losses | 11, 12 | **331** | 2,364 |
| Loss on disposal of property, plant and equipment | | **187** | 23 |
| Research and development costs | | **4,873** | 4,178 |
| Depreciation and impairment of property, plant and equipment | 21 | **2,677** | 2,223 |
| Amortisation of intangibles | 20 | **9,861** | 9,883 |
| Cost of inventories within cost of sales | | **75,548** | 94,481 |
| Staff costs | 13 | **28,235** | 25,244 |
| Gain on sale of trademark | 15 | **–** | (830) |
| Movement in expected credit loss | 24 | **(292)** | (26) |
| Share-based payments | 32 | **(282)** | 1,313 |

## 10 Auditor's remuneration

| | Year ended 31 August | |
|---|---|---|
| | **2023<br>£'000** | 2022<br>£'000 |
| Fees payable to the Group's auditor for the audit of the Group's Annual Report and Accounts | **595** | 473 |
| Additional fee in respect of prior year audit | **248** | 30 |
| Audit of the accounts of subsidiaries pursuant to legislation | **134** | 237 |
| **Total audit fees** | **977** | 740 |
| Audit-related assurance services (half-year review) | **55** | 50 |
| **Total** | **1,032** | 790 |

## 11 Finance income

| | Year ended 31 August | |
|---|---|---|
| | **2023<br>£'000** | 2022<br>£'000 |
| Bank deposit interest | **132** | 11 |
| Exchange gain | **638** | 2,275 |
| | **770** | 2,286 |

## 12 Finance costs

| | Year ended 31 August | |
|---|---|---|
| | **2023<br>£'000** | 2022<br>£'000 |
| Bank charges | **1,831** | 340 |
| Unwinding of RCF arrangement fee | **74** | 74 |
| Charge on right-of-use assets | **153** | 73 |
| Exchange losses (gains) | **307** | (89) |
| | **2,365** | 398 |

## 13 Staff costs

| | **2023<br>£'000** | 2022<br>£'000 |
|---|---|---|
| Wages and salaries | **31,763** | 26,640 |
| Social security costs | **4,162** | 3,215 |
| Other pension costs | **752** | 658 |
| Share-based payments | **(282)** | 1,313 |
| | **36,395** | 31,826 |
| Less: amounts capitalised within development costs | **(8,160)** | (6,582) |
| | **28,235** | 25,244 |

The average number of persons, including Executive Directors, employed by the Group during the year was as follows:

| | **2023<br>Number** | 2022<br>Number |
|---|---|---|
| Research and Development | **164** | 163 |
| Sales and Marketing | **156** | 150 |
| Operations | **123** | 135 |
| Administration | **100** | 76 |
| | **543** | 524 |

## 14 Directors' remuneration

A detailed analysis of Directors' remuneration, including salaries, bonuses and long-term incentives, and the highest paid Director, is provided in note 3 of the Company financial statements (page 128).

## 15 Adjusting items

The following adjusting items have been disclosed in the period because they do not reflect the normal business activities for the Group:

| | Year ended 31 August | |
|---|---|---|
| | **2023<br>£'000** | 2022<br>Restated<br>£'000 |
| **Adjusting income:** | | |
| Gain on sale of trademark | **–** | (830) |
| **Adjusting costs:** | | |
| Acquisition and due diligence costs | **367** | 565 |
| Earnout in relation to acquisitions | **786** | 1,160 |
| Restructuring | **534** | – |
| **Total adjusting items for adjusted EBITDA** | **1,687** | 895 |
| Amortisation of acquired intangible assets | **4,451** | 5,116 |
| **Total adjusting items for adjusted operating profit** | **6,138** | 6,011 |
| Tax on adjusting items[1] | **(1,319)** | (1,376) |
| **Total adjusting items for adjusted profit after tax** | **4,819** | 4,635 |

Acquisition costs in FY23 relate to the acquisition of Sonnox Limited in December 2022.

The earnout cost relates to the final balances of contingent consideration in respect of the acquisitions of Linea Research Limited (£0.6 million) and Sequential LLC (£0.2 million) recognised during the year.

During the year, the Group carried out restructuring of the regional sales and marketing teams in the EMEA region resulting in costs of £0.5 million, this is a one off strategic consolidation of multiple teams which is not expected to repeat.

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[1] Restated to include the deferred tax credit arising on the amortisation of acquired intangibles, which was not previously included.

# **Notes to the Financial Statements** continued

## For the year ended 31 August 2023

## 16 Tax

| | Year ended 31 August | |
|---|---|---|
| | **2023<br>£'000** | 2022<br>£'000 |
| **Corporation tax charges** | | |
| Over provision in prior year | **(309)** | (11) |
| Current year | **4,745** | 6,523 |
| | **4,436** | 6,512 |
| **Deferred taxation** | | |
| Under provision in prior year | **249** | (438) |
| Current year | **266** | (301) |
| | **4,951** | 5,773 |

Corporation tax is calculated at 21.5% (2022: 19%) of the estimated taxable profit for the year. Taxation for the US and German subsidiaries is calculated at the rates prevailing in the respective jurisdiction.

The tax charge for each year can be reconciled to the profit per the income statement as follows:

| | Year ended 31 August | |
|---|---|---|
| | **2023<br>£'000** | 2022<br>£'000 |
| **Current taxation** | | |
| Profit before tax on continuing operations | **22,748** | 30,549 |
| Tax at the UK corporation tax rate of 21.5% (2022: 19%) | **4,894** | 5,804 |
| Effects of: | | |
| Expenses not deductible for tax purposes | **480** | 168 |
| Other differences | **(26)** | (49) |
| Additional UK tax reliefs | **(642)** | (140) |
| Prior period adjustment | **(59)** | (449) |
| Effect of change in standard rate of deferred tax | **12** | 173 |
| Impact of foreign tax rates | **292** | 266 |
| **Tax charge for the year** | **4,951** | 5,773 |

Expenses not deductible relate to costs of acquisition and entertainment expenses.

### Tax credited directly to equity

In addition to the amount charged to the income statement and other comprehensive income, the following amounts of tax have been recognised in equity:

| | **2023<br>£'000** | 2022<br>£'000 |
|---|---|---|
| Share-based payments deferred tax | **5** | (1,131) |
| Share-based payments current tax | **(123)** | 723 |
| | **(118)** | (408) |

The net corporation tax creditor is £2,619,000 (FY22: £653,000).

## 17 Dividends

The following equity dividends have been declared or proposed:

| | **Year to<br>31 August 2023** | Year to<br>31 August 2022 |
|---|---|---|
| Dividend per qualifying ordinary share | **6.6p** | 6.0p |

During the year, the Company paid an interim dividend in respect of the year ended 31 August 2023 of 2.10 pence per share (FY22: 1.85 pence per share).

On 24 November 2023, the Directors proposed a final dividend of 4.5 pence per share (FY22: 4.15 pence per share) making a total of 6.6 pence per share for the year (FY22: 6.0 pence per share).

## 18 Earnings per share

The calculation of the basic and diluted EPS is based on the following data:

| | Year ended 31 August | |
|---|---|---|
| | **2023<br>£'000** | 2022<br>Restated[1]<br>£'000 |
| Profit after tax | **17,797** | 24,776 |
| Adjusting items (note 15) | **6,138** | 6,011 |
| Tax on adjusting items | **(1,319)** | (1,376) |
| **Total underlying profit** | **22,616** | 29,411 |

| | Year ended 31 August | |
|---|---|---|
| | **2023<br>Number<br>'000** | 2022<br>Number<br>'000 |
| Number of shares | | |
| Weighted average number of ordinary shares | **58,506** | 58,294 |
| Effect of dilutive potential ordinary shares | | |
| Share option plans | **447** | 623 |
| Weighted average number of total ordinary shares including dilutive impact | **58,953** | 58,917 |

| | **Pence** | Pence |
|---|---|---|
| **EPS** | | |
| Basic EPS | **30.4** | 42.5 |
| Diluted EPS | **30.2** | 42.1 |
| Adjusted basic EPS | **38.7** | 50.5 |
| Adjusted diluted EPS | **38.4** | 49.9 |

[1] Restated in FY22 to include the deferred tax credit arising on the amortisation of acquired intangibles, which was not previously included.

The Group presents basic and diluted EPS data for its ordinary shares. Basic EPS is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. For diluted EPS, the weighted average number of ordinary shares is adjusted for the dilutive effect of potential ordinary shares arising from the exercise of granted share options.

At 31 August 2023, the total number of ordinary shares issued and fully paid was 59,211,639. This included 624,173 (FY22: 262,929) shares held by the EBT to satisfy options vesting in future years. The operation of this EBT is funded by the Group so the EBT is required to be consolidated, with the result that the weighted average number of ordinary shares for the purpose of the basic EPS calculation is the net of the weighted average number of shares in issue 59,073,009 (58,488,351) less the weighted average number of shares held by the EBT 566,408 (FY22: 367,333). It should be noted that the only right relinquished by the Trustees of the EBT is the right to receive dividends. In all other respects, the shares held by the EBT have full voting rights.

The effect of dilutive potential ordinary share issues is calculated in accordance with IAS 33 and arises from the employee share options currently outstanding, adjusted by the profit element as a proportion of the average share price during the period.

## 19 Goodwill and intangible assets with indefinite useful life

| | Sonnox £'000 | Linea Research £'000 | Sequential £'000 | Martin Audio £'000 | ADAM Audio £'000 | Novation Digital Music Systems £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At 1 September 2021 | – | – | 2,397 | 12,564 | 4,874 | 419 | 20,254 |
| Goodwill on business combinations | – | 3,387 | – | – | – | – | 3,387 |
| Foreign Exchange | – | – | 443 | – | (156) | – | 287 |
| **At 31 August 2022** | **–** | **3,387** | **2,840** | **12,564** | **4,718** | **419** | **23,928** |
| Goodwill on business combinations | 2,683 | – | – | – | – | – | 2,683 |
| Foreign Exchange | – | – | (227) | – | (46) | – | (273) |
| **At 31 August 2023** | **2,683** | **3,387** | **2,613** | **12,564** | **4,672** | **419** | **26,338** |

| | Sonnox £'000 | Linea Research £'000 | Sequential £'000 | Martin Audio £'000 | ADAM Audio £'000 | Novation Digital Music Systems £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| **Carrying amount** | | | | | | | |
| At 31 August 2021 | – | – | 2,397 | 2,364 | 4,874 | 419 | 10,054 |
| Goodwill on business combinations | – | 3,387 | – | – | – | – | 3,387 |
| Foreign Exchange | – | – | 443 | – | (156) | – | 287 |
| **At 31 August 2022** | **–** | **3,387** | **2,840** | **2,364** | **4,718** | **419** | **13,728** |
| Goodwill on business combinations | 2,683 | – | – | – | – | – | 2,683 |
| Foreign Exchange | – | – | (227) | – | (46) | – | (273) |
| **At 31 August 2023** | **2,683** | **3,387** | **2,613** | **2,364** | **4,672** | **419** | **16,138** |

The carrying value of goodwill includes cumulative impairment losses of £10,200,000 (2022: £10,200,000) attributable to Martin Audio.

The goodwill shown in the table above and intangible assets not yet started to be amortised are allocated to the CGUs as per the table below. These are projects in development, which have not yet been completed. The carrying value of these assets has been assessed for impairment and no impairment is considered to be required on these assets.

| | Goodwill £'000 | Development costs not yet started to be amortised £'000 |
|---|---|---|
| Focusrite | 583 | 4,034 |
| Novation | 419 | 322 |
| ADAM Audio | 4,672 | 1,515 |
| Martin Audio | 2,364 | 211 |
| Sequential | 2,613 | 68 |
| Linea Research | 3,387 | 1,929 |
| Sonnox | 2,100 | 450 |
| **Total** | **16,138** | **8,529** |

### Assumptions for assessment of impairment

The impairment review undertaken as described below for all CGUs covers goodwill, intangible assets with indefinite useful lives and other internally-generated assets.

An impairment assessment in relation to each of these CGUs was performed by management. The recoverable amounts of these CGUs have been determined based on the value in use method. The calculations use cash flow projections based on financial budgets and three-year plan approved by management covering a three-year period to the end of FY26. Cash flows beyond that period have been extrapolated using a perpetual 2% growth rate (FY22: 1%) based on IMF estimates of long-term inflation thereafter.

Key assumptions in the plan relate to revenue growth and gross margin rates. These are determined using internal forecasts based upon historical growth rates and the Group's three year plan which considers relevant macro-economic indicators, including the impacts of costs on products and overheads. The Group structure is assumed to remain unchanged, and with all Group companies executing on their existing product roadmaps.

The discount rate applied against future cash flows has been calculated with reference to a weighted average cost of the capital ('WACC') calculated by reference to an industry peer group relevant to each of the operating entities. Inputs include 20-year nominal risk-free rate and market risk premium.

There is significant headroom between the carrying value and the value in use of the CGUs and so the Directors believe that currently any reasonably possible changes in the key assumptions referred to would not give rise to an impairment charge.

The following pre-tax discount rates were then used for the CGUs:

| | 2023 | 2022 |
|---|---|---|
| **CGUs** | | |
| Focusrite and Focusrite Pro | **15.2%** | 10.8% |
| Novation | **15.8%** | 10.8% |
| ADAM Audio | **15.7%** | 13.9% |
| Martin Audio | **16.8%** | 13.9% |
| Sequential | **16.5%** | 18.1% |
| Linea Research | **15.8%** | 17.9% |
| Sonnox | **15.8%** | – |

The pre tax discount rates used in FY23 have increased for the majority of CGUs from the prior year due to the increase in the underlying interest rates. Management believes that any reasonably possible change in any assumptions on which these CGUs' recoverable amounts are based would not cause the carrying amount to exceed their respective recoverable amounts.

## 20 Other intangible assets

| | | Technology, Products and Patents | | | | | |
|---|---|---|---|---|---|---|---|
| | Intellectual property, licences and trademarks £'000 | Internally generated – in use £'000 | Acquired – in use £'000 | In development £'000 | Computer software £'000 | Brands £'000 | Total £'000 |
| **Cost** | | | | | | | |
| At 1 September 2021 | 1,658 | 21,413 | 23,694 | 6,535 | 1,585 | 20,020 | 74,905 |
| ***Additions*** | | | | | | | |
| Acquired separately | 1,684 | – | – | – | 44 | 4,535 | 6,263 |
| Products developed during the year | 406 | 2,387 | – | 5,464 | – | – | 8,257 |
| Business combinations | – | – | 4,050 | 1,600 | – | 850 | 6,500 |
| Transfers | (21) | 3,908 | 1,402 | (5,289) | – | – | – |
| Disposals | (1) | – | – | – | (245) | – | (246) |
| Foreign exchange | – | – | 1,032 | – | – | 913 | 1,945 |
| At 31 August 2022 | **3,726** | **27,708** | **30,178** | **8,310** | **1,384** | **26,318** | **97,624** |
| ***Additions*** | | | | | | | |
| Acquired separately | 1,706 | – | – | – | 318 | – | 2,024 |
| Products developed during the year | – | 2,514 | – | 6,085 | – | – | 8,599 |
| Business combinations | – | – | 4,700 | 450 | 3 | 400 | 5,553 |
| Transfers | – | 5,600 | 801 | (6,261) | (140) | – | – |
| Disposals | – | (4,108) | – | – | – | – | (4,108) |
| Foreign exchange | (2) | (183) | (628) | (55) | – | (1,010) | (1,878) |
| **At 31 August 2023** | **5,430** | **31,531** | **35,051** | **8,529** | **1,565** | **25,708** | **107,814** |
| **Accumulated Amortisation** | | | | | | | |
| At 1 September 2021 | 1,321 | 16,607 | 4,123 | 728 | 833 | 2,227 | 25,839 |
| Charge for the year | 362 | 3,938 | 3,215 | 242 | 467 | 1,659 | 9,883 |
| Eliminated on disposal | – | – | – | – | (141) | – | (141) |
| Foreign exchange | – | 17 | 39 | – | – | 23 | 79 |
| At 31 August 2022 | **1,683** | **20,562** | **7,377** | **970** | **1,159** | **3,909** | **35,660** |
| Charge for the year | 342 | 4,824 | 3,536 | – | 244 | 1,885 | 10,831 |
| Transfer | – | 239 | – | – | (239) | – | – |
| Eliminated on disposal | – | (4,081) | – | – | – | – | (4,081) |
| Reversal of amortisation | – | – | – | (970) | – | – | (970) |
| Foreign exchange | (1) | (22) | (116) | – | – | (196) | (335) |
| **At 31 August 2023** | **2,024** | **21,522** | **10,797** | **–** | **1,164** | **5,598** | **41,105** |
| **Carrying amount** | | | | | | | |
| **At 31 August 2023** | **3,406** | **10,009** | **24,254** | **8,529** | **401** | **20,110** | **66,709** |
| At 31 August 2022 | 2,043 | 7,146 | 22,801 | 7,340 | 225 | 22,409 | 61,964 |
| At 1 September 2021 | 337 | 4,806 | 19,571 | 5,807 | 752 | 17,793 | 49,066 |

# Notes to the Financial Statements continued

## For the year ended 31 August 2023

## 20 Other intangible assets continued

In previous accounting periods, the amortisation of acquired technology and patents under development has been incorrectly calculated. The accounting policy requires that they should be amortised from the date when the assets are available for use. In error it had been commenced from the earlier date of the acquisition of the related businesses. The cumulative excess amortisation provided in error totals £1.0 million as at 31 August 2022. As, in the opinion of the Directors, the amount of the error is not material, cumulatively or in any given financial year, the correction of this error has been reflected by a reversal of £1.0 million of amortisation in the current period. In order to enhance transparency, the other intangible assets note above has been represented to separate those assets which are currently in development from those which are in use.

In FY23, there were no disposals (FY22: £nil) related to development costs previously capitalised but which are considered to be no longer viable projects. All disposals in the year related to fully amortised assets.

Transfers relate to assets that have been previously misclassified.

## 21 Property, plant and equipment

| | Land and buildings £'000 | Plant, tooling equipment and machinery £'000 | Right-of-use assets £'000 | Fixtures, fittings and leasehold improvements £'000 | Computer equipment £'000 | Customer demonstration units £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At 1 September 2021 | – | 3,422 | 3,350 | 1,636 | 1,616 | 118 | 10,142 |
| Additions | – | 694 | 6,735 | 12 | 339 | – | 7,780 |
| Additions through business combination | 1,500 | 35 | – | – | – | – | 1,535 |
| Disposals | – | (97) | – | (43) | (10) | – | (150) |
| Foreign exchange | – | 3 | 187 | 27 | 50 | 1 | 268 |
| At 31 August 2022 | **1,500** | **4,057** | **10,272** | **1,632** | **1,995** | **119** | **19,575** |
| Additions | – | 729 | 1,400 | 2,195 | 280 | – | 4,604 |
| Additions through business combination | – | – | – | 36 | – | – | 36 |
| Disposals | – | (20) | (393) | – | (8) | – | (421) |
| Foreign exchange | | (3) | (148) | (69) | (40) | – | (260) |
| **At 31 August 2023** | **1,500** | **4,763** | **11,131** | **3,794** | **2,227** | **119** | **23,534** |
| **Accumulated depreciation** | | | | | | | |
| At 1 September 2021 | – | 1,918 | 2,095 | 1,108 | 1,259 | 116 | 6,496 |
| Charge for the year | 30 | 715 | 979 | 178 | 321 | – | 2,223 |
| Disposals | – | (78) | – | (44) | (5) | – | (127) |
| Foreign exchange | – | 2 | 58 | 19 | 33 | 1 | 113 |
| At 31 August 2022 | **30** | **2,557** | **3,132** | **1,261** | **1,608** | **117** | **8,705** |
| Charge for the year | 30 | 607 | 985 | 732 | 323 | – | 2,677 |
| Disposals | – | (20) | (211) | – | (3) | – | (234) |
| Foreign exchange | – | (2) | (51) | (25) | (31) | – | (109) |
| **At 31 August 2023** | **60** | **3,142** | **3,855** | **1,968** | **1,897** | **117** | **11,039** |
| **Carrying amount** | | | | | | | |
| **At 31 August 2023** | **1,440** | **1,621** | **7,276** | **1,826** | **330** | **2** | **12,495** |
| At 31 August 2022 | 1,470 | 1,500 | 7,140 | 371 | 387 | 2 | 10,870 |
| At 1 September 2021 | – | 1,504 | 1,255 | 528 | 357 | 2 | 3,646 |

## 22 Subsidiaries and other undertakings

The Group's subsidiary and other undertakings for the period are listed below, including the name, country of incorporation, and proportion of ownership interest:

| Name | Country of registration or incorporation | Address | Principal activity | Class of shares | 2023 % | 2022 % |
|---|---|---|---|---|---|---|
| Focusrite Audio Engineering Limited ('FAEL') | England and Wales | Artisan, Hillbottom Road, High Wycombe, Bucks HP12 4HJ, England | Manufacture and distribution | Ordinary | **100** | 100 |
| Focusrite Group US.[6] | US | 909 N Pacific Coast Highway Suite 270, El Segundo, CA, 90245, USA | Marketing services | Ordinary | **100** | 100 |
| Focusrite Novation Asia Limited[1] | Hong Kong | 2316, 23/F Hong Kong Plaza, 181–191 Connaught Road West, Shek Tong Tsui, Hong Kong | Marketing services | Ordinary | **100** | 100 |
| Focusrite Australia PTY Limited[1] | Australia | Suite 5, Level 1, 796 High Street, Kew East, Victoria 3102, Australia | Marketing services | Ordinary | **100** | 100 |
| Pro Audio Beteiligungs GmbH | Germany | Grünstraße 13, Hugstetten, 79232, Germany | Holding company | Ordinary | **100** | 100 |
| ADAM Audio GmbH[2] | Germany | Rudower Chaussee 50, Berlin, 12489 Germany | Manufacture and distribution | Ordinary | **100** | 100 |
| Dongguan ADAM Audio Business Service Co., Limited[3] | China | Room 505, Building 1 (-3H Maker Center), No. 552, Tangxia Avenue North, Tangxia Town, Dongguan, Guangdong, China | Operational services | Ordinary | **100** | 100 |
| Optimal Audio Group Limited | England and Wales | Unit 2 Century Point, Halifax Road, High Wycombe, Bucks HP12 3SL, England | Manufacture and distribution | Ordinary | **100** | 100 |
| Martin Audio Limited[4] | England and Wales | Unit 2 Century Point, Halifax Road, High Wycombe, Bucks HP12 3SL, England | Manufacture and distribution | Ordinary | **100** | 100 |
| Martin Audio US, LLC | USA | 3108 Glendale Blvd., #669, Los Angeles, CA 90039, USA | Manufacture and distribution | Ordinary | **100** | 100 |
| Focusrite Investments Inc. | USA | 909 N Pacific Coast Highway Suite 270, El Segundo, CA, 90245, USA | Holding company | Ordinary | **100** | 100 |
| Sequential LLC[5] | USA | 1527 Stockton Street, 3rd Floor, San Francisco, CA 94133, USA | Manufacture and distribution | Ordinary | **100** | 100 |
| Marion Systems LLC[7] | USA | 1527 Stockton Street, 3rd Floor, San Francisco, CA 94133, USA | High-end synth production company | N/A | **100** | 100 |
| Linea Research Holdings Ltd[8] | UK | Unit 1 & 2 Aylesford Court, Works Road, Letchworth Garden City, Hertfordshire SG6 1LP, England | Activities of other holding companies | Ordinary | **100** | 100 |
| Linea Research Limited[8] | UK | Unit 1 & 2 Aylesford Court, Works Road, Letchworth Garden City, Hertfordshire SG6 1LP, England | Other engineering activities | Ordinary | **100** | 100 |
| Herts & Beds Electronic Services Limited[8] | UK | Unit 1 & 2 Aylesford Court, Works Road, Letchworth Garden City, Hertfordshire SG6 1LP, England | Wholesale of electronic and telecommunications equipment and parts | Ordinary | **100** | 100 |
| Aylesford Court (Letchworth) Management Company Ltd | UK | Lewis House, Great Chesterford Court, Great Chesterford, Essex CB10 1PF, England | Combined facilities support activities | Ordinary | **40** | 40 |
| Sonnox Ltd | UK | Unit 1, Manor Barns Witney Road, Finstock, Chipping Norton, Oxon OX7 3DG, England | Software development | Ordinary | **100** | 100 |

1 Owned indirectly through FAEL.
2 Owned indirectly through Pro Audio Beteiligungs GmbH.
3 Owned indirectly through ADAM Audio GmbH.
4 Owned indirectly through Optimal Audio Group Limited.
5 Owned indirectly through Focusrite Investments Inc.
6 Renamed from Focusrite Novation Inc in FY21.
7 Owned indirectly through Sequential LLC.
8 Owned indirectly through Optimal Audio Group Limited.

# Notes to the Financial Statements continued

**For the year ended 31 August 2023**

## 22 Subsidiaries and other undertakings continued

Focusrite plc has issued guarantees over the liabilities of the following companies at 31 August 2023 under Section 479C of the Companies Act 2006 and these entities are exempt from the requirements of the Act relating to the audit of individual accounts by virtue of Section 479A of the Act.

| Company name | Company number |
|---|---|
| Focusrite Audio Engineering Limited | 02357989 |
| Optimal Audio Group Limited | 11341979 |
| Martin Audio Limited | 04824341 |
| Linea Research Holdings Limited | 11727359 |
| Linea Research Limited | 04742566 |
| Herts & Beds Electronic Services Limited | 07205776 |
| Sonnox Limited | 05820431 |

## 23 Inventories

| | 2023<br>£'000 | 2022<br>£'000 |
|---|---|---|
| Raw materials | **9,450** | 3,820 |
| Work in progress | **2,011** | 2,778 |
| Finished goods | **43,795** | 41,742 |
| | **55,256** | 48,340 |

The stock value includes a provision of £4,581,070 (FY22: £4,342,000). This stock provision is for slow moving inventory and raw material where demand is low, therefore is at higher risk of becoming obsolete. Of this provision, £517,000 (FY22: £310,000) was reversed and £224,000 (FY22: £23,000) was utilised during the year.

Stock charged to cost of sales during the year was £75,548,000 (FY22: £94,481,000).

No specific inventories have been pledged as security against borrowings (FY22: £nil). The Group's bankers are party to a debenture which provides for security over the whole of the Company and certain subsidiaries assets and undertakings. This debenture is in place to support the RCF, provision of forward contracts and a duty deferment facility.

## 24 Trade and other receivables

| | 2023<br>£'000 | 2022<br>£'000 |
|---|---|---|
| Trade debtors | **28,783** | 27,345 |
| Expected credit loss | **(166)** | (458) |
| | **28,617** | 26,887 |
| Other debtors | **362** | 127 |
| Prepayments | **2,370** | 1,285 |
| Tax debtor | **1,035** | 221 |
| | **32,384** | 28,520 |

### Trade receivables

Trade receivables disclosed above are classified as loans and receivables and are measured at amortised cost.

The Group has not charged interest for late payment of invoices in FY22 or FY23, but in certain cases the Group has withheld some of that customer's discount from the invoiced price.

Expected credit loss is recognised on the total trade receivables based on estimated irrecoverable amounts by reference to past default experience. Specific counterparty risk is also considered where an analysis of the counterparty's current financial position indicates a change in credit risk.

A single major distributor accounted for 34% (FY22: 31%) of the total balance of trade receivables net of allowances for doubtful debts. This is largely covered by credit insurance. No other single customer accounted for more than 10% of the total balance of trade receivables net of allowances for doubtful debts during the period under review.

Trade receivables disclosed above include amounts which are past due at the year end but against which the Group has not recognised an allowance for doubtful receivables. There has not been a significant change in credit quality and the amounts are still considered recoverable.

### Ageing of not impaired receivables

| | 2023<br>£'000 | 2022<br>£'000 |
|---|---|---|
| Not overdue | **16,284** | 17,701 |
| Overdue between 0 and 30 days | **9,862** | 7,669 |
| Overdue between 31 and 60 days | **2,135** | 893 |
| Overdue between 61 and 90 days | **150** | 81 |
| Overdue more than 90 days | **186** | 543 |
| | **28,617** | 26,887 |

### Movement in the expected credit loss

| | 2023<br>£'000 | 2022<br>£'000 |
|---|---|---|
| Balance at the beginning of the period | **458** | 484 |
| Movement in expected loss recognised | **(292)** | (26) |
| Balance at the end of the period | **166** | 458 |

### Ageing of impaired trade receivables

| | 2023<br>£'000 | 2022<br>£'000 |
|---|---|---|
| Overdue up to 0 and 30 days | **46** | 50 |
| Overdue between 31 and 60 days | **4** | 16 |
| Overdue between 61 and 90 days | **–** | 139 |
| Overdue more than 90 days | **116** | 253 |
| | **166** | 458 |

Of the £166,000 (FY22: £458,000) provision for the expected credit loss, £12,000 (FY22: £220,000) of this covers debt that has been provided for in full.

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

## 25 Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group:

| | Intangible assets recognised on acquisition<br>£'000 | Capitalised development costs<br>£'000 | Share-based payments<br>£'000 | Other deferred tax<br>£'000 | Hedging instrument<br>£'000 | Total<br>£'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 September 2021 | 5,941 | 2,026 | (1,431) | (674) | 136 | 5,998 |
| Transfers | – | 202 | – | (202) | – | – |
| (Credit) debit to income statement | (746) | 397 | (128) | (265) | – | (742) |
| Credit to other comprehensive income | – | – | – | – | (199) | (199) |
| Arising on business combinations | 1,585 | – | – | 419 | – | 2,004 |
| Directly recognised in equity | – | – | 1,131 | – | – | 1,131 |
| At 31 August 2022 | 6,780 | 2,625 | (428) | (722) | (63) | 8,192 |
| **Debit (credit) to income statement** | **59** | **(258)** | **272** | **442** | **–** | **515** |
| **Credit to other comprehensive income** | **18** | **–** | **–** | **–** | **186** | **204** |
| **Arising on business combinations** | **1,374** | **–** | **–** | **11** | **–** | **1,385** |
| **Directly recognised in equity** | **–** | **–** | **(5)** | **–** | **–** | **(5)** |
| **Transfers** | **–** | **1,053** | **–** | **(1,053)** | **–** | **–** |
| **At 31 August 2023** | **8,231** | **3,420** | **(161)** | **(1,322)** | **123** | **10,291** |

Other deferred tax includes £1,298,000 (2022: £1,296,000) relating to deferred tax assets on the elimination of unrealised profit held within stock and £194,000 (2022: £573,000) relating to deferred tax liabilities on fixed asset timing differences.

Deferred tax assets and liabilities are offset when related to income taxes levied by the same taxation authority. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

| | 2023<br>£'000 | 2022<br>£'000 |
|---|---|---|
| Deferred tax liabilities | **(10,824)** | (9,130) |
| Deferred tax assets | **533** | 938 |
| | **(10,291)** | (8,192) |

# **Notes to the Financial Statements** continued

**For the year ended 31 August 2023**

## 26 Other liabilities

The Group has leases for its offices, warehouses and related facilities, plant and machinery and some vehicles. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet. The Group classifies its right-of-use assets within 'property, plant and equipment' (see note 21).

The remaining terms of the leases for offices and warehouses range from one to ten years in term, with the last leases due to expire in 2032. Lease payments are generally fixed and there is no option to purchase the buildings at the end of the term. For leases over office buildings and warehouses, the Group must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease.

Right-of-use assets consist of the following leases:

| | 2023<br>£'000 | 2022<br>£'000 |
|---|---|---|
| Offices and warehouses | **7,142** | 7,140 |
| Vehicles | **134** | – |
| | **7,276** | 7,140 |

Lease liabilities are split between current and non-current:

| | 2023<br>£'000 | 2022<br>£'000 |
|---|---|---|
| Current | **1,201** | 897 |
| Non-current | **6,009** | 6,013 |
| | **7,210** | 6,910 |

When measuring the lease liabilities, the Group discounted lease payments using its incremental borrowing rate. The weighted average rate applied to leases adopted in the year was 1.19% (2022: 1.19%).

The movement in lease liabilities is as follows:

| | 2023<br>£'000 | 2022<br>£'000 |
|---|---|---|
| Balance at 1 September | **6,910** | 1,285 |
| Lease payments | **(1,427)** | (1,168) |
| | **5,483** | 117 |
| Interest on lease liabilities | **438** | 24 |
| New leases in the year | **1,320** | 6,629 |
| Foreign exchange | **(31)** | 140 |
| **Balance at 31 August** | **7,210** | 6,910 |

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable leases, which fall due as follows:

| | 2023<br>£'000 | 2022<br>£'000 |
|---|---|---|
| Within one year | **1,201** | 897 |
| Between 2 and 5 years | **4,162** | 2,965 |
| After 5 years | **1,847** | 3,048 |
| | **7,210** | 6,910 |

At the balance sheet date, the Group had the following liabilities in relation to staged acquisition payments relating to the purchase of the Oberheim brand in May 2022.

| | 2023<br>£'000 | 2022<br>£'000 |
|---|---|---|
| Within one year | **560** | 744 |
| Between 2 and 5 years | **2,062** | 2,382 |
| After 5 years | **–** | 448 |
| | **2,622** | 3,574 |

### Total other liabilities

| | 2023<br>£'000 | 2022<br>£'000 |
|---|---|---|
| Within one year | **1,761** | 1,641 |
| Between 2 and 5 years | **6,224** | 5,347 |
| After 5 years | **1,847** | 3,496 |
| | **9,832** | 10,484 |

## 27 Trade and other payables

| | 2023<br>£'000 | Re-presented[1]<br>2022<br>£'000 |
|---|---|---|
| Trade payables | **26,044** | 22,809 |
| Accruals | **10,747** | 12,177 |
| Contract liability | **1,708** | 374 |
| Other taxation and social security | **1,204** | 988 |
| | **39,703** | 36,348 |

[1] The contract liability balance is considered material in the current year, and has therefore been shown separately in the above note. The comparative amount of £374,000, previously included within the accruals balance, in accordance with IAS 1.41, has been separately shown for consistency, and the accruals balance of £12,551,000 in 2022 decreased by the same amount.

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. No interest costs have been incurred in relation to trade payables. The Group policy is to ensure that payables are paid within the pre-agreed credit terms and to avoid incurring penalties and/or interest on late payments. Other creditors include sales taxes, property taxes, social security and employment taxes due to local tax authorities.

## 28 Provisions

| | Warranty<br>£'000 | Duty<br>£'000 | Property<br>£'000 | Total<br>£'000 |
|---|---|---|---|---|
| At 1 September 2022 | **304** | **490** | **1,046** | **1,840** |
| Additional provisions | **73** | **386** | **103** | **562** |
| Provisions released | **–** | **(490)** | **–** | **(490)** |
| Utilisations | **(94)** | **–** | **(547)** | **(641)** |
| Foreign exchange | **(1)** | **–** | **–** | **(1)** |
| At 31 August 2023 | **282** | **386** | **602** | **1,270** |
| | | | | |
| Current | **282** | **386** | **602** | **1,270** |

The Group provides warranty cover for its products for no additional charge in respect of manufacturing defects which become apparent shortly after purchase. The Group offers warranties of up to five years and the estimated liability for product warranty is recognised when products are sold. No additional warranty services are provided to customers. These estimates are established using historical information on the nature, frequency and average cost of warranty claims and cost to repair.

Property provisions costs relate to the best estimate to reinstate the Group's leased building to their condition at lease commencement.

## 29 Share capital

| | 2023<br>Number | 2022<br>Number |
|---|---|---|
| **Issued and fully paid** | | |
| Ordinary shares of £0.001 each | **59,211,639** | 58,661,639 |

| | 2023<br>£ | 2022<br>£ |
|---|---|---|
| **Issued and fully paid** | | |
| Ordinary shares of £0.001 each | **59,212** | 58,662 |

In the financial year, 550,000 shares were issued to the EBT (FY22: nil).

# Notes to the Financial Statements continued

**For the year ended 31 August 2023**

## 30 Other reserves

### Share premium reserve

| | 2023<br>£'000 | 2022<br>£'000 |
|---|---|---|
| Balance at 1 September and 31 August | **115** | 115 |

### Merger reserve

| | 2023<br>£'000 | 2022<br>£'000 |
|---|---|---|
| Balance at 1 September and 31 August | **14,595** | 14,595 |

On 4 December 2014, Focusrite plc obtained control of 100% of the share capital of FAEL in a share-for-share exchange, thereby inserting Focusrite plc as the Parent Company of the Group. In accordance with the Companies Act 2006, the difference between the cost of the investment and the nominal value of the share capital acquired was recognised in the merger reserve.

### Merger difference reserve

| | 2023<br>£'000 | 2022<br>£'000 |
|---|---|---|
| Balance at 1 September and 31 August | **(13,147)** | (13,147) |

Under IFRS 3, the equity structure should reflect the equity structure of the legal parent (Focusrite plc) including the equity interests Focusrite plc issued to the combination. The merger difference reserve is the difference between the sum of the plc share capital and merger reserve, and the sum of the FAEL share capital, share premium and capital redemption reserve.

There were no movements in the merger difference reserve in the period.

### Translation reserve

| | 2023<br>£'000 | 2022<br>£'000 |
|---|---|---|
| Balance at 1 September | **(1,015)** | (529) |
| Exchange differences on translating the net assets of foreign operations | **(1,742)** | (486) |
| **Balance at 31 August** | **(2,757)** | (1,015) |

Exchange differences relating to the translation of the net assets and results of the Group's US, German, Australian and Hong Kong subsidiaries from its functional currency into the Group's presentational currency are recognised directly in the translation reserve.

### Hedging reserve

| | 2023<br>£'000 | 2022<br>£'000 |
|---|---|---|
| Balance at 1 September | **(293)** | 716 |
| Gain on forward exchange contracts | **784** | (1,009) |
| Transfer of deferred tax to reserves | | – |
| At 31 August | **491** | (293) |

### EBT reserve

| | 2023<br>£'000 | 2022<br>£'000 |
|---|---|---|
| Balance at 1 September | **(1)** | (1) |
| Shares issued to the EBT | **–** | – |
| Share options exercised | **–** | – |
| **Balance at 31 August** | **(1)** | (1) |

The EBT reserve arose when the Company issued equity share capital which is held in trust by the EBT. The interests of this trust are consolidated into the Group's financial statements and the relevant amount treated as a reduction in equity. The shares held in the trust relate to share options granted; upon exercise of the share options this amount is reduced.

## 31 Cash and cash equivalents

| | 2023<br>£'000 | 2022<br>£'000 |
|---|---|---|
| Cash and bank balances per the balance sheet | **26,787** | 12,758 |
| Net cash per the cash flow statement | **26,787** | 12,758 |

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less. The Group has no outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value.

## 32 Share-based payments

### Equity-settled share option schemes

206,377 options over Focusrite plc's shares were exercised during the year ended 31 August 2023 (2022: 335,180). As at 31 August 2023, the total number of ordinary shares under option in Focusrite plc was 734,404 (2022: 786,166) of which 624,173 (2022: 554,712) can be satisfied by ordinary shares that are held in the EBT.

The remaining number of options would, if exercised, result in the issue of 105,126 (2022: 523,236) ordinary shares. The options held by the Directors are subject to performance-related vesting conditions.

The weighted average share price at the date of exercise for share options exercised during the year ended 31 August 2023 was £8.15 (2022: £12.64). For the share options outstanding at the year end, the weighted average remaining contractual life was 0.9 years (2022: 0.9 years).

| | **2023** | | 2022 | |
|---|---|---|---|---|
| | **Number of options** | **Weighted average exercise price £** | Number of options | Weighted average exercise price £ |
| **Outstanding at start of year** | **786,166** | **3.08** | 1,032,852 | 3.12 |
| **Granted during the period** | | | | |
| 2022 PSP: Executive Directors | **77,381** | **0.001** | | |
| 2022 PSP: Other senior employees | **74,241** | **0.001** | | |
| 2022 Management bonus award | | **0.001** | | |
| 2022 Rockstars | **73,153** | **0.001** | | |
| 2021 PSP: Executive Directors | | | 32,558 | 0.001 |
| 2021 PSP: Other senior employees | | | 34,612 | 0.001 |
| 2021 Management bonus award | | | 6,599 | 0 |
| 2021 Next 20 | | | 31,446 | 0.001 |
| 2021 GBS | | | 4,287 | |
| **Exercised during the year** | | | | |
| 2015 EMI scheme: other employees | | | (107,540) | 1.71 |
| 2018 PSP | | | (97,701) | 0 |
| 2019 PSP | **(71,420)** | **0.001** | | |
| 2018 LTIP | **(92,542)** | **3.93** | (101,522) | 3.94 |
| 2019 LTIP | **(38,829)** | **5.10** | (17,789) | 5.10 |
| 2020 LTIP | **(2,082)** | **6.45** | | |
| Management shares | **(6,132)** | **0.001** | (4,029) | 0.001 |
| Management bonus shares | | | (6,599) | |
| **Cancelled during the period** | | | | |
| 2015 EMI scheme: other employees | | | 51 | 1.71 |
| 2022 PSP: Executive Directors | **(8,347)** | **0.001** | | |
| 2021 PSP: Executive Directors | **(5,021)** | **0.001** | | |
| 2020 PSP: Executive Directors | **(9,904)** | **0.001** | | |
| 2022 Rockstars | **(7,198)** | **0.001** | | |
| 2021 Next 20 | **(7,262)** | **0.001** | | |
| 2018 LTIP | **(2,479)** | **3.94** | (4,335) | 3.94 |
| 2019 LTIP | **(11,290)** | **5.10** | (1,414) | 5.1 |
| 2020 LTIP | **(14,031)** | **6.45** | (15,310) | 6.45 |
| **Outstanding at the end of the year** | **734,404** | **2.25** | 786,166 | 3.08 |
| **Exercisable at the end of the year** | **232,017** | **3.83** | 110,853 | 3.94 |

| | 2023<br>£'000 | 2022<br>£'000 |
|---|---|---|
| (Credit) expense arising from share-based payment transactions | **(282)** | **1,313** |

# Notes to the Financial Statements continued

## For the year ended 31 August 2023

## 32 Share-based payments continued

The estimated fair value of the share options was calculated by applying a Black-Scholes model. The model inputs were:

| Grant date | Share price at date of grant | Exercise price £'000 | Expected volatility | Dividend yield £'000 | Contractual life of option £'000 | Risk-free interest rate |
|---|---|---|---|---|---|---|
| 01 September 2014 | £1.74–£2.00 | £0.001 | 51.8% | 1.50% | 3-5 years | 1.93% |
| 18 September 2014 | £0.15 | £0.15 | 51.8% | 1.50% | 3-5 years | 0.56–1.93% |
| 01 December 2015 | £1.76 | £1.76 | 37.2–40.6% | 1.50% | 3-5 years | 1.46–1.59% |
| 13 March 2019 | £5.10 | £5.10 | 31.6% | 0.63% | 3 years | 0.97–1.04% |
| 17 February 2020 | £6.37 | £6.37 | 31.0% | 0.61% | 3 years | 0.50–0.53% |
| 18 June 2020 | £6.45 | £6.45 | 33.6% | 0.40% | 3 years | 0.03–0.08% |
| 18 November 2020 | £9.35 | £0.001 | N/A | 0.75% | 3 years | N/A |
| 16 November 2021 | £16.25 | £0.001 | N/A | 0.28% | 3 years | N/A |
| 20 December 2022 | £8.40 | £0.001 | N/A | 0.66% | 3 years | N/A |

## 33 Retirement benefit scheme

The Group operates a number of defined contribution pension plans which are open to all employees.

Other than amounts that are deducted from employees' remuneration and accrued pending payment to the pension fund, no further obligations fall on the Group as the assets of these arrangements are held and managed by third parties entirely separate from the Group.

The pension charge for the year represents contributions payable to the fund and amounted to £752,000 (2022: £658,000) for the year. Contributions totalling £20,000 (2022: £107,000) were payable to the fund at the balance sheet date and are included in trade and other payables.

## 34 Financial instruments

### Capital risk management

The Group manages its capital to maximise future profitable growth and thereby the return on investment for shareholders. The Group's overall strategy has evolved in the last five years in response to both organic and acquisition-related growth opportunities.

The capital structure of the Group consists of cash and cash equivalents, and equity attributable to equity holders of the Parent Company, comprising issued capital, reserves and retained earnings, as disclosed in notes 29 and 30.

The Group is not subject to any externally imposed capital requirements. Equity includes all capital and reserves of the Group that are managed as capital.

### Categories of financial instruments

| | 2023 £'000 | 2022 £'000 |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | **26,787** | 12,758 |
| Trade and other receivables | **28,617** | 26,887 |
| Derivative financial assets designated and effective as cash flow hedging instruments | **491** | – |
| | **55,895** | 39,645 |
| **Financial liabilities** | | |
| Trade and other payables | **26,044** | 22,809 |
| Bank loan and arrangement fee | **28,093** | 13,054 |
| Amounts payable in relation to staged acquisition payments | **2,621** | 3,573 |
| Derivative financial liabilities designated and effective as cash flow hedging instruments | **–** | 293 |
| | **56,758** | 39,729 |

The £0.1 million recorded as at 31 August 2023 (against bank loan and arrangement fee is the amount paid to arrange the RCF in December 2019 FY22: £0.2 million). The cost is being written down over the term of the RCF, which is five years. This is shown net with the loan amount. As at 31 August 2023, the amount drawn down against the RCF is £28.2 million (2022: £13.2 million).

Financial assets and liabilities are measured at amortised cost with the exception of financial derivatives which are held at fair value.

### Financial risk management objectives

The Group's finance function is responsible for all aspects of corporate treasury. It coordinates access to financial markets, and monitors and manages the financial risks relating to the operations of the Group through internal reports which analyse exposures by degree and magnitude. The risks reviewed include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group seeks to minimise the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide guidance to the finance function in addressing all risks, including foreign exchange risk, credit risk and the appropriate use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Group's bankers are party to a debenture which provides for security over the whole of the Company's assets and undertakings. This debenture is in place to support the RCF, provision of forward contracts and a duty deferment facility.

### Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Group enters into derivative financial instruments to manage its exposure to foreign currency risk. Currently the exposure to short-term foreign exchange rate risks is mitigated through the purchase of forward foreign exchange contracts to hedge the exchange rate risk arising on trading with overseas customers.

### Foreign currency risk management

The Group undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters, utilising forward foreign exchange contracts.

The carrying amounts of the Group's monetary assets and monetary liabilities at the relevant period end dates are as follows:

| | Liabilities | | Assets | |
|---|---|---|---|---|
| | 2023 £'000 | 2022 £'000 | 2023 £'000 | 2022 £'000 |
| US Dollar (USD) | **18,328** | 17,537 | **31,368** | 18,647 |
| Euro | **1,140** | 2,754 | **10,037** | 6,887 |
| Australian Dollar | **316** | 147 | **1,319** | 1,280 |
| Hong Kong Dollar | **11** | 16 | **141** | 124 |
| Chinese Yuan | **–** | – | **–** | 100 |
| Sterling (GBP) | **36,963** | 18,982 | **13,030** | 12,314 |
| | **56,758** | 39,436 | **55,895** | 39,352 |

### Foreign currency sensitivity analysis

The Group is mainly exposed to the Euro and USD.

The following table details the Group's sensitivity to a 10% increase and decrease in GBP against the relevant foreign currencies.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

| | Euro impact | | USD impact | |
|---|---|---|---|---|
| | 2023 £'000 | 2022 £'000 | 2023 £'000 | 2022 £'000 |
| Profit or loss impact | **989** | 413 | **1,449** | 920 |

### Forward foreign exchange contracts

It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts during the following financial year with the aim that approximately 75% of the Euro foreign exchange exposure is covered. In addition, in accordance with the group policy, hedges for approximately 50% of the Euro foreign exchange exposure for the year after that will be taken out post year end. Basis adjustments are made to the carrying amounts of non-financial hedged items when the anticipated sale or purchase transaction takes place. The Group hedges payments and receipts of trade debtors and creditors and no other financial assets, and therefore there is no uncertainty over the accounting for any payments for stock and other financial assets.

# Notes to the Financial Statements continued

## For the year ended 31 August 2023

### 34 Financial instruments continued

For the current and prior year, all forward foreign exchange contracts have been hedge accounted. For cash flow hedges, the following table sets out the periods when the cash flows are expected to occur and when they are expected to affect profit or loss:

| | 2023 | | | | |
|---|---|---|---|---|---|
| | Carrying amount £'000 | Expected cash flow £'000 | Within 1 year £'000 | Between 1 and 5 years £'000 | Over 5 years £'000 |
| **Forward exchange contracts** | | | | | |
| **Assets** | **491** | **491** | **491** | **–** | **–** |
| **Total** | **491** | **491** | **491** | **–** | **–** |

| | 2022 | | | | |
|---|---|---|---|---|---|
| | Carrying amount £'000 | Expected cash flow £'000 | Within 1 year £'000 | Between 1 and 5 years £'000 | Over 5 years £'000 |
| **Forward exchange contracts** | | | | | |
| Liabilities | (293) | (293) | (293) | – | – |
| Total | (293) | (293) | (293) | – | – |

### Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the Group. The Group has a well-established system of credit limits and credit insurance, where credit insurance typically covers around 80% of the Group's trade receivables.

The carrying amount recorded for financial assets in the consolidated financial information is net of impairment losses and represents the Group's maximum exposure to credit risk. No guarantees have been given in respect to third parties.

### Liquidity risk management

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. To counter this risk, the Group operates with a high level of cash and has a RCF in place. In addition, it benefits from strong cash flow from its normal trading activities.

The following table details the Group's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

| Financial assets | Less than 1 month £'000 | 1 to 3 months £'000 | 3 months to 1 year £'000 | 1 to 5 years £'000 | 5+ years £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **2023** | | | | | | |
| **Non-interest bearing** | **26,787** | **–** | **–** | **–** | **–** | **26,787** |
| | **26,787** | **–** | **–** | **–** | **–** | **26,787** |
| 2022 | | | | | | |
| Non-interest bearing | 12,758 | – | – | – | – | 12,758 |
| | 12,758 | – | – | – | – | 12,758 |

| Financial liabilities | Less than 1 month £'000 | 1 to 3 months £'000 | 3 months to 1 year £'000 | 1 to 5 years £'000 | 5+ years £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **2023** | | | | | | |
| **Non-interest bearing** | **–** | **–** | **99** | **–** | **–** | **99** |
| **RCF** | **(28,192)** | **–** | **–** | **–** | **–** | **(28,192)** |
| | **(28,192)** | **–** | **99** | **–** | **–** | **(28,093)** |
| 2022 | | | | | | |
| Non-interest bearing | – | – | – | 174 | – | 174 |
| RCF | (13,228) | – | – | – | – | (13,228) |
| | (13,228) | – | – | 174 | – | (13,054) |

The amounts drawn down on the RCF are shown as less than one month as this is the agreed term of the draw down, but it can be renewed within the term of the credit facility.

The £0.1 million (2022: £0.2 million) recorded against bank loan and arrangement fee as at 31 August 2023 is the amount paid to arrange the RCF in December 2019. The cost is being written down over the term of the RCF, which is five years.

The movement in financial liabilities is shown below:

| | 2023 £'000 | 2022 £'000 |
|---|---|---|
| Balance as at 1 September | **13,054** | (248) |
| **Changes from financing cash flows:** | | |
| Proceeds from loans and borrowings | **15,226** | 13,228 |
| Repayment of loans and borrowings | **–** | – |
| | **28,280** | 12,980 |
| **Other changes** | | |
| Write-down of RCF arrangement fee | **75** | 74 |
| Foreign Exchange | **(262)** | – |
| **Balance at 31 August** | **28,093** | 13,054 |

The maturity of non-derivative financial liabilities, comprising trade payables and other creditors, is less than three months for both of the financial period ends.

The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities is subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the relevant year ends presented above.

On 19 December 2019, Focusrite plc took out a £40 million RCF with HSBC UK and NatWest, for a period of five years. Under this agreement, Focusrite plc may draw down funds on demand, at an interest rate of 1.25%–1.90% + SONIA on utilised funds and 40% of margin on unutilised funds. On 25 September 2023, Focusrite plc agreed a new facility with HSBC UK and NatWest for £50 million, for a period of four years with an option to extend for a further year. Under this agreement, Focusrite plc may draw down funds on demand, at an interest rate of 1.65%–2.30% + SONIA on utilised funds and 35% of margin on unutilised funds.

### Fair value of financial instruments

#### Fair value of financial instruments carried at amortised cost

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

### Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

### Fair value measurements recognised in the statement of financial position

Under IAS 39, all derivative financial instruments not in a hedge relationship are classified as derivatives at fair value through the income statement. The Group does not use derivatives for speculative purposes. All transactions in derivative financial instruments are underpinned by firm orders from customers or to suppliers or where there is a high degree of certainty that orders will be received.

# Notes to the Financial Statements continued

## For the year ended 31 August 2023

### 35 Related party transactions

Balances and transactions between the Parent Company and its subsidiary, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and other related parties are disclosed below.

**Remuneration of key management personnel**

The key management personnel are the operational Directors of the Group and the remuneration that they have received during the year while employed as an operational Director is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures*.

| | 2023 £'000 | 2022 £'000 |
|---|---|---|
| Short-term employee benefits | **2,339** | 2,790 |
| Share-based payments | **466** | 1,512 |
| Pension contributions | **45** | 63 |
| | **2,850** | 4,365 |

More details on the members of the Board can be found on pages 64 and 65.

**Transactions involving Directors and key management personnel**

During the year, the Company continued a commercial lease agreement in Lincoln Road, High Wycombe. Mr P Dudderidge, a Director and shareholder of the Company, is the landlord of the property in Lincoln Road, High Wycombe. The annual rental is £24,250 (2022: £24,250) and is considered to be at arm's length. No amounts are outstanding at the year end (2022: £nil).

### 36 Capital commitments

As at 31 August 2023, the Group had a capital commitment of US$2.9 million (2022: $0.7 million) relating to technical development work with an external third party. This is expected to be paid within FY24.

### 37 Post balance sheet events

On 23 September 2023, the Group renewed its RCF with its existing bankers, HSBC and NatWest. The renewed facility is for £50 million and expires on 23 September 2027, with an option to extend for a further 12 months past this date. The agreement also includes an uncommitted accordion facility for a further £50 million.

Under this agreement, Focusrite plc may draw down funds on demand at an interest rate of between 1.65%-2.30% on utilised funds depending on the Group's most recent leverage calculation. Interest on undrawn funds is charged at 35% of the relevant margin.

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# Company Balance Sheet

## As at 31 August 2023

| | Note | 2023 £'000 | Restated[1] 2022 £'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Investment in subsidiaries | 6 | **70,154** | 61,090 |
| Intangible assets | 7 | **107** | – |
| Trade and other receivables | 8 | **34,115** | 30,866 |
| **Total non-current assets** | | **104,376** | 91,956 |
| **Current assets** | | | |
| Trade and other receivables | 8 | **528** | 5,894 |
| Deferred tax asset | | **49** | 428 |
| Cash at bank and in hand | | **59** | 179 |
| **Total current assets** | | **636** | 6,501 |
| **Creditors: amounts falling due within one year** | | | |
| Trade and other payables | 9 | **(33,783)** | (41,753) |
| Bank loan | 10 | **(27,093)** | (13,054) |
| **Total current liabilities** | | **(60,876)** | (54,807) |
| **Total assets less current liabilities** | | **44,136** | 43,650 |
| **Net assets** | | **44,136** | 43,650 |
| **Capital and reserves** | | | |
| Share capital | 11 | **59** | 59 |
| Share premium | | **115** | 115 |
| Merger reserve | 12 | **14,595** | 14,595 |
| Employee Benefit Trust ('EBT') reserve | 13 | **(1)** | (1) |
| Non-distributable reserve | | **3,650** | 3,650 |
| Retained earnings | | **25,718** | 25,232 |
| **Total equity and shareholders' funds** | | **44,136** | 43,650 |

[1] See note 15 for details of restatement.

The financial statements were approved by the Board of Directors and authorised for issue on 28 November 2023. They were signed on its behalf by:

**Sally McKone**
Chief Financial Officer

Registered number 9312676

The accompanying notes on pages 127 to 131 form part of these financial statements.

# Company Statement of Changes in Equity

## For the year ended 31 August 2023

| | Share capital £’000 | Share premium £’000 | Merger reserve £’000 | EBT reserve £’000 | Non-distributable reserve £’000 | Retained earnings £’000 | Total £’000 |
|---|---|---|---|---|---|---|---|
| Balance at 31 August 2021 | 59 | 115 | 14,595 | (1) | 3,650 | 26,000 | 44,418 |
| Profit for the period | – | – | – | – | – | 878 | 878 |
| Share-based payments deferred tax | – | – | – | – | – | (1,131) | (1,131) |
| Share-based payments current tax | – | – | – | – | – | 723 | 723 |
| EBT shares issued | – | – | – | – | – | 674 | 674 |
| Share-based payments | – | – | – | – | – | 1,120 | 1,120 |
| Premium on shares in lieu of bonuses | – | – | – | – | – | 202 | 202 |
| Dividends paid | – | – | – | – | – | (3,234) | (3,234) |
| Balance at 31 August 2022 | 59 | 115 | 14,595 | (1) | 3,650 | 25,232 | 43,650 |
| **Profit for the period** | **–** | **–** | **–** | **–** | **–** | **4,295** | **4,295** |
| **Share-based payments current tax** | **–** | **–** | **–** | **–** | **–** | **(2)** | **(2)** |
| **Share-based payments deferred tax** | | | | | | **(426)** | **(426)** |
| **Shares withheld to settle tax obligations** | **–** | **–** | **–** | **–** | **–** | **(216)** | **(216)** |
| **EBT shares issued** | **–** | **–** | **–** | **1** | **–** | **584** | **585** |
| **Shares issued to the EBT** | **–** | **–** | **–** | **(1)** | **–** | **(246)** | **(247)** |
| **Premium on shares in lieu of bonuses** | **–** | **–** | **–** | **–** | **–** | **106** | **106** |
| **Dividends paid** | **–** | **–** | **–** | **–** | **–** | **(3,609)** | **(3,609)** |
| **Balance at 31 August 2023** | **59** | **115** | **14,595** | **(1)** | **3,650** | **25,718** | **44,136** |

The accompanying notes on pages 127 to 131 form part of these financial statements.

# Notes to the Company Accounts

## For the year ended 31 August 2023

## 1 Authorisation of financial statements and statement of compliance with FRS 101

The Parent Company financial statements of Focusrite plc for the year ended 31 August 2023 were authorised for issue by the Board of Directors on 28 November 2023 and the balance sheet was signed on the Board’s behalf by Sally McKone.

Focusrite plc is a public limited company incorporated and domiciled in England and Wales. The Company’s ordinary shares are traded on AIM. These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101').

No profit and loss account is presented by the Company as permitted by section 408 of the Companies Act 2006.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 August 2023.

The Company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The Parent Company’s profit for the year was £4,295,000 (2022: £878,000).

## 2 Basis of preparation and summary of significant accounting policies

### Basis of preparation

These financial statements were prepared in accordance with FRS101.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of UK-adopted international accounting standards (“Adopted IFRSs”), but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken: a cash flow statement and related notes;

- disclosures in respect of transactions with wholly owned subsidiaries;
- disclosures in respect of capital management;
- disclosures required under IFRS 2 in relation to share-based payments;
- the effects of new but not yet effective IFRSs; and
- disclosures in respect of the compensation of key management personnel.

Under section 408 of the Companies Act 2006, the Company is exempt from the requirement to present its own profit and loss account.

### Investments in subsidiaries

Investments in subsidiaries are stated at cost less any provision for impairment. This is detailed in more depth in the Group accounting policies note 3.

### Cash

Cash and short-term deposits in the balance sheet comprise cash at banks and in hand, and short-term deposits with an original maturity of three months or less.

### Income taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities, and their carrying amounts in the financial statements, with the following exception: deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date. The carrying amount of deferred income tax assets is reviewed at each balance sheet date.

Deferred income tax assets and liabilities are offset only if a legally enforced right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the Company to make a single net payment.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise, income tax is recognised in the income statement.

### Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group’s obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

### Equity-settled share-based payments

The Company issues equity-settled payments to certain employees (including Directors). All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees’ services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

# Notes to the Company Accounts continued

## For the year ended 31 August 2023

## 2 Basis of preparation and summary of significant accounting policies continued

Share options are valued at the date of grant using the Black-Scholes option pricing model for options with non-market vesting conditions attached and a simulation model for options with market vesting conditions attached, and are charged to operating profit over the vesting period of the award with a corresponding credit to the 'Other reserves'.

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options, the proceeds received net of attributable transaction costs are credited to share capital and, where appropriate, share premium account.

The share option charge related to the grant by the Company of options over its equity instruments to the employees of subsidiary undertakings is subsequently recharged to the relevant employing subsidiary.

## 3 Directors' remuneration

### Directors' emoluments

| | 2023<br>£'000 | Re-presented[1]<br>2022<br>£'000 |
|---|---|---|
| Salaries, bonuses and other employee benefits | **1,398** | 1,944 |
| Social security costs | **247** | 325 |
| Pension costs | **17** | 68 |
| | **1,662** | 2,337 |
| Aggregate emoluments of the highest-paid Director | **625** | 398 |

1 Typographical errors in this note in the prior year have been corrected, with the result that the note is consistent with the Directors' Remuneration Report.

During the year, retirement benefits were accruing to two Directors (2022: two Directors) in respect of defined contribution pension schemes. The highest paid Director received remuneration (excluding the value of vested share options) of £625,000 (2022: £398,000).

The value of the Company's contributions paid to a defined contribution pension scheme in respect of the highest paid Director amounted to £nil (2022: £nil). During the year, 35,263 share options were exercised by Directors (2022: 62,350), resulting in a gain of £283,867 (2022: £949,000).

The Directors' remuneration for the year including vested share options was as follows:

| **Executive Directors** | | Salary/fees<br>£'000 | Other taxable benefits<br>£'000 | Annual bonus<br>£'000 | Pension contribution<br>£'000 | Total<br>£'000 |
|---|---|---|---|---|---|---|
| Tim Carroll[1] | FY22 | 297 | 3 | 60 | 38 | 398 |
| | **FY23** | 380 | 3 | 232 | 10 | 625 |
| Sally McKone[2] | FY22 | 233 | – | 46 | 30 | 309 |
| | **FY23** | 270 | 1 | 205 | 7 | 483 |
| Phil Dudderidge[3] | FY22 | 63 | 2 | – | – | 65 |
| | **FY23** | – | – | – | – | – |
| **Non-executive Directors** | | | | | | |
| Phil Dudderidge[3] | FY22 | 126 | 3 | – | – | 129 |
| | **FY23** | 192 | 5 | – | – | 197 |
| David Bezem[4] | FY22 | 55 | – | – | – | 55 |
| | **FY23** | 57 | – | – | – | 57 |
| Naomi Climer[5] | FY22 | 52 | – | – | – | 52 |
| | **FY23** | 57 | – | – | – | 57 |
| Mike Butterworth[6] | FY22 | 37 | – | – | – | 37 |
| | **FY23** | 57 | – | – | – | 57 |
| Paul Dean[6] | FY22 | 18 | – | – | – | 18 |

1 The bonus for Tim Carroll comprises £155,200 paid in cash (FY22: £nil), £38,600 taken as shares (FY22: £29,651) and £38,600 in the form of matching shares (FY22: £29,651).
The pension contribution was taken as additional income net of the appropriate percentage of income tax and Employer's National Insurance which would not otherwise have fallen due.

2 The bonus for Sally McKone comprises £70,200 (FY22: £nil) paid in cash, £67,500 taken as shares (FY22: £23,256) and £67,500 in the form of matching shares (FY22: £23,256).

3 The remuneration for Phil Dudderidge comprises a Chairman's fee/salary of £192,000 (FY22: £189,000). Effective 1 January 2022, Phil moved from Executive Chairman to Non-Executive Chairman and his fee/salary has been pro rated accordingly for FY22.

4 The remuneration for David Bezem comprises a basic fee of £47,000 per annum for his role as Non-executive Director of the Group and an additional £10,000 per annum for his role as Senior Independent Director.

5 The remuneration for Naomi Climer comprises a basic fee of £47,000 per annum for her role as Non-executive Director of the Group and an additional £10,000 per annum for her role as Chair of the Remuneration Committee.

6 Mike Butterworth joined the Group as Non-executive Director from 1 January 2022, following the resignation of Paul Dean. Remuneration for Mike Butterworth comprises a basic fee of £47,000 per annum for his role as Non-executive Director of the Group and an additional £10,000 per annum for his role as Chair of the Audit Committee.

## 4 Staff costs

Staff costs, including Directors' remuneration, were as follows:

| | 2023<br>£'000 | 2022<br>£'000 |
|---|---|---|
| Wages and salaries | **3,500** | 3,019 |
| Social security costs | **517** | 453 |
| Other pension costs | **41** | 24 |
| | **4,058** | 3,496 |

The average monthly number of employees, including the Directors, during the year was as follows:

| | 2023<br>Number | 2022<br>Number |
|---|---|---|
| Management and administration | **18** | 16 |

## 5 Dividends

The following equity dividends have been declared or proposed:

| | 2023 | 2022 |
|---|---|---|
| Dividend per qualifying ordinary share | **6.6p** | 6.0p |

During the year, the Company paid an interim dividend in respect of the year ended 31 August 2023 of 2.10 pence per share (2022: 1.85 pence per share).

On 24 November 2023, the Directors proposed a final dividend of 4.50 pence per share (2022: 4.15 pence per share), making a total of 6.6 pence per share for the year (2022: 6.0 pence per share).

## 6 Investments in subsidiaries

| | 2023<br>£'000 | 2022<br>£'000 |
|---|---|---|
| At 1 September | **61,090** | 61,090 |
| Additions | **9,064** | – |
| At 31 August | **70,154** | 61,090 |

| Name | Country of registration or incorporation | Principal activity | Class of shares | 2023<br>% | 2022<br>% |
|---|---|---|---|---|---|
| Focusrite Audio Engineering Limited ('FAEL') | England and Wales | Manufacture and distribution | Ordinary | **100** | 100 |
| Focusrite Group USA[5] | USA | Marketing services | Ordinary | **100** | 100 |
| Focusrite Novation Asia Limited[1] | Hong Kong | Marketing services | Ordinary | **100** | 100 |
| Focusrite Australia PTY Limited[1] | Australia | Marketing services | Ordinary | **100** | 100 |
| Pro Audio Beteiligungs GmbH | Germany | Holding company | Ordinary | **100** | 100 |
| ADAM Audio GmbH[2] | Germany | Manufacture and distribution | Ordinary | **100** | 100 |
| Dongguan ADAM Audio Business Service Co., Limited[3] | China | Operational services | Ordinary | **100** | 100 |
| Optimal Audio Group Limited | England and Wales | Manufacture and distribution | Ordinary | **100** | 100 |
| Martin Audio Limited[4] | England and Wales | Manufacture and distribution | Ordinary | **100** | 100 |
| Martin Audio USA, LLC | USA | Manufacture and distribution | Ordinary | **100** | 100 |
| Focusrite Investments Inc. | USA | Holding company | Ordinary | **100** | 100 |
| Sequential LLC[5] | USA | Manufacture and distribution | Ordinary | **100** | 100 |
| Marion Systems LLC[7] | USA | High-end synth production company | N/A | **100** | 100 |
| Linea Research Holdings Ltd[8] | UK | Activities of other holding companies | Ordinary | **100** | 100 |
| Linea Research Limited[8] | UK | Other engineering activities | Ordinary | **100** | 100 |
| Herts & Beds Electronic Services Limited[8] | UK | Wholesale of electronic and telecommunications equipment and parts | Ordinary | **100** | 100 |
| Aylesford Court (Letchworth) Management Company Ltd | UK | Combined facilities support activities | Ordinary | **40** | 40 |
| Sonnox Limited | UK | Software development | Ordinary | **100** | – |

1 Owned indirectly through FAEL.

2 Owned indirectly through Pro Audio Beteiligungs GmbH.

3 Owned indirectly through ADAM Audio GmbH.

4 Owned indirectly through Optimal Audio Group Limited.

5 Owned indirectly through Focusrite Investments Inc.

6 Renamed from Focusrite Novation Inc in FY21.

7 Owned indirectly through Sequential LLC.

8 Owned indirectly through Optimal Audio Group Limited.

# Notes to the Company Accounts continued

## For the year ended 31 August 2023

## 7 Intangible assets

| | Computer software £'000 | Website £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| **At 31 August 2022** | – | – | – |
| **Additions** | 46 | 61 | 107 |
| | 46 | 61 | 107 |
| Amortisation | | | |
| At 31 August 2022 | – | – | – |
| Charge for the year | – | – | – |
| At 31 August 2023 | 46 | 61 | 107 |
| **Carrying amount** | | | – |
| **At 31 August 2023** | **46** | **61** | **107** |
| At 31 August 2022 | – | – | – |

## 8 Trade and other receivables

| **Debtors due in less than one year** | 2023 £'000 | 2022 £'000 |
|---|---|---|
| Other debtors | **441** | 74 |
| Prepayments | **87** | 33 |
| Amounts owed by Group undertakings | **–** | 5,787 |
| | **528** | 5,894 |
| **Debtors due in more than one year** | | |
| Amounts owed by Group undertakings | **34,115** | 30,866 |

The amounts owed by Group undertakings are repayable on demand. These amounts include loans made to ADAM Audio, Martin Audio, Sequential LLC and Focusrite Investments Inc totalling £34,115,000 (2022: £36,653,000). These loans have been made on an arm's length basis and interest is payable at a rate of 2%.

Of the amounts owed, management do not expect repayment of £34,115,00 (FY22: £30,866,000) within one year, therefore this balance has been classified as due in more than one year.

The company has not accounted for any expected credit loss within intercompany receivables as this is deemed immaterial.

## 9 Creditors

| | 2023 £'000 | 2022 £'000 |
|---|---|---|
| Other creditors | **3,862** | 1,851 |
| Amounts due to Group undertakings | **29,921** | 39,902 |
| | **33,783** | 41,753 |

The amounts owed to Group undertakings are repayable on demand, although no balances are expected to be repaid during the next 12 months.

## 10 Bank loan

| | Less than 1 month £'000 | 1 to 3 months £'000 | 3 months to 1 year £'000 | 1 to 5 years £'000 | 5+ years £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **2023** | | | | | | |
| **Non-interest-bearing** | – | 99 | – | – | – | 99 |
| **RCF** | (27,192) | – | – | – | – | (27,192) |
| | (27,192) | 99 | – | – | – | (27,093) |
| 2022 | | | | | | |
| Non-interest-bearing | – | – | – | 174 | – | 174 |
| RCF | (13,228) | – | – | – | – | (13,228) |
| | (13,228) | – | – | 174 | – | (13,054) |

On 19 December 2019, Focusrite plc took out a £40 million revolving credit facility with HSBC UK and NatWest, for a period of five years. Under this agreement, Focusrite plc may draw down funds on demand, at an interest rate of 1.25%–1.90% + SONIA on utilised funds and 0.4% + SONIA on unutilised funds.

The £0.1 million recorded as at 31 August 2023 (FY22: £0.2 million) against the bank loan and arrangement fee is the amount paid to arrange the RCF in December 2020. The cost is being written down over the term of the RCF, which is five years.

The Group's bankers are party to a debenture which provides for security over the whole of the Company's assets and undertakings. This debenture is in place to support the RCF, provision of forward contracts and a duty deferment facility.

## 11 Share capital

| | 2023 Number | 2022 Number |
|---|---|---|
| **Issued and fully paid** | | |
| Ordinary shares of £0.001 each | **59,211,639** | 58,661,639 |

In the financial year, 550,000 shares were issued to the EBT (FY22: nil).

| | 2023 Number | 2022 Number |
|---|---|---|
| **Issued and fully paid** | | |
| | **59,212** | 58,662 |

The Company has one class of ordinary shares which carries no right to fixed income.

## 12 Merger reserve

| | 2023 £'000 | 2022 £'000 |
|---|---|---|
| At 1 September and 31 August | **14,595** | 14,595 |

The merger reserve represents the difference between the cost of the investment in FAEL (and its subsidiary, Focusrite Novation Inc.) of £14,647,000 and the nominal value of the ordinary shares issued in exchange of £52,000.

## 13 EBT reserve

| | 2023 £'000 | 2022 £'000 |
|---|---|---|
| Balance at 1 September and 31 August | **(1)** | (1) |
| Shares issued to the EBT | **(1)** | – |
| Shares from EBT exercised | **1** | – |
| Balance at 31 August | **(1)** | (1) |

## 14 Post balance sheet events

On 22 September 2023, the Group renewed its RCF with its existing bankers, HSBC and NatWest. The renewed facility is for £50 million and expires on 23 September 2027 with an option to extend for a further 12 months past this date. The agreement also includes an uncommitted accordion for a further £50 million.

Under this agreement, Focusrite PLC may drawdown funds on demand at an interest rate of between 1.65%-2.30% on utilised funds depending on the group's most recent leverage calculation. Interest on undrawn funds is charged at 35% of the relevant margin.

## 15 Restatement of prior year figures

In the prior year, the figures on the face of the Company Balance Sheet were not correct due to the presentation of balances not being in line with the notes to the financial statements. There were also arithmetic errors in some of the sub totals. In order for better presentation of the comparative figures, and to allow comparability across both years, the prior year figures have been restated. The restatement has no effect on the previously reported Net assets and Total equity and shareholders' funds of £43,650,000. Details of each financial statement line affected are shown below:

| | As reported £'000 | Restated £'000 | Difference £'000 |
|---|---|---|---|
| Non-current trade and other receivables | 4,787 | 30,866 | (26,079) |
| Total non-current assets | 65,877 | 91,956 | (26,079) |
| Current trade and other receivables | 31,973 | 5,894 | 26,079 |
| Total current assets | 35,579 | 6,501 | 29,078 |
| Total current liabilities | – | (54,807) | 54,807 |
| Total assets less current liabilities | 79,003 | 43,650 | 35,353 |

# Advisers

## Registered office

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Buckinghamshire
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## Auditor

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## Company number

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## Nominated advisers and joint broker

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## Joint broker

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## Legal adviser

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## Registrar

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## Financial public relations

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## Company Secretary

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