

Strictly embargoed until 07:00: 25 April 2023

Focusrite plc ("Focusrite" or "the Group")
Half year results for the six months ended 28 February 2023

Focusrite plc, the global music and audio products company supplying hardware and software used by professional and amateur musicians and the entertainment industry, today announces its half year results for the six months ended 28 February 2023.

Commenting on the results, Tim Carroll CEO said:

"Focusrite plc is a much bigger business since pre-COVID with eleven brands operating globally across different, but complementary markets. This past half year has showcased just how well the Group's diversification strategy has paid off, giving us increased resilience in the face of global and industry wide headwinds.

"Revenue in our Content Creation division has been impacted by industry-wide surplus channel inventory and softening in demand along with a planned channel inventory reduction ahead of a large product release programme coming in the second half. Pleasingly, our Audio Reproduction division, as anticipated, has experienced strong growth and is now ahead of pre pandemic levels. Despite challenging markets, the Group is still showing material growth over pre pandemic levels and has retained our strong market share, underscored by rock solid brand positions."

Key financial metrics

	HY23	HY22
Revenue (£ million)	86.2	92.9
Gross Margin	47.1%	46.6%
Adjusted ¹ EBITDA ² (£ million)	18.1	22.2
Operating profit (£ million)	11.5	16.3
Adjusted ¹ operating profit (£ million)	14.2	19.1
Basic earnings per share (p)	14.4	23.1
Adjusted ¹ diluted earnings per share (p) ⁴ (HY22: restated)	18.0	26.2
Interim dividend per share (p)	2.1	1.85
Net (debt) ³ cash (£ million)	(13.2)	18.0

Highlights

- Revenue decreased by 7.2% reflecting an organic constant currency⁵ decrease of 19.0%, with market and channel weakness impacting the Focusrite and Novation brands, partially offset by strong double digit growth in the remaining brands
 - Content Creation brands revenue was down by 16.1% to £67.4 million (HY22: £80.4 million) with Focusrite and Novation impacted by surplus channel inventory levels and a some softening in the market due to global macroeconomic issues, together with a planned reduction of inventory in advance of upcoming product releases. ADAM and Sequential showing strong growth with prize winning product launches and are helped by weaker prior year comparators
 - Audio Reproduction brands revenue is up by 50.7% to £18.8 million (HY22: £12.5 million) benefitting from a resurgence in live events and a strong performance from Linea Research, acquired in March 2022.
 - Growth in EMEA region of 2.4% following ongoing changes to strengthen our routes to market. North

- Growth in EMEA region of 3.4% following ongoing changes to strengthen our routes to market. North America was impacted by high levels of inventory in the channel and ROW by market weakness in APAC
- Acquisition of Sonnox on 19 December 2022 for cash consideration of £7.2 million (net of cash acquired of £1.9 million) has performed to plan and is contributing positively to the Group
- Gross margin at 47.1% (HY22: 46.6%) is 0.5% points higher than HY22 and 3.0% points higher than H2 FY22. Freight costs have reduced significantly, with some of that benefit reinvested in promotions to support sales
- Adjusted¹ EBITDA² at £18.1 million, down from HY22 at £22.2 million, reflecting lower sales, notwithstanding stronger gross margins and strong cost control
- Operating profit of £11.5 million (HY22: £16.3 million) impacted by increased amortisation from acquisitions and new product launches
- Launch of 21 new products, including a new Sequential synthesiser and a range of Martin speakers all expected to contribute in the second half of this year
- Net debt³ of £13.2 million (HY22: net cash £18.0 million) has increased to fund acquisitions and to support higher inventory levels during a period of key product transitions
- Interim dividend of 2.1 pence, 13.5% growth compared to HY22 dividend of 1.85 pence

Trading since the half year has remained solid. The outlook for the Group is positive with inventory in the channel beginning to improve and continued strength in the buoyant live sound market. We anticipate revenue growth in the second half to be in line with expectations, driven by a number of planned key product introductions alongside elevated costs due to promotions for existing products. We continue to execute on our established and proven growth strategy combining organic growth with focussed M&A activity.

1 Adjusted for amortisation of acquired intangible assets, sale of trademark and other adjusting items detailed in note 4 to the Interim Statement

2 Comprising earnings adjusted for interest, taxation, depreciation and amortisation.

3 Net debt/cash defined as cash and cash equivalents, overdrafts and amounts drawn against the RCF including the costs of arranging the RCF

4 Restated to include the deferred tax credit arising on the amortisation of acquired intangibles, which was not previously included. See note 1.8 to the interim financial statements

5 Organic constant currency growth. This is calculated by comparing HY22 revenue to HY23 revenue adjusted for HY23 exchange rates and the impact of acquisitions.

Enquiries:

Focusrite plc:

Tim Carroll (CEO)	+44 1494 462246
Sally McKone (CFO)	+44 1494 462246

Investec Bank plc (<i>Nominated Adviser and Joint Broker</i>)	+44 20 7597 5970
David Flin	
Ed Knight	
William Brinkley	

Peel Hunt LLP (<i>Joint broker</i>)	
Paul Gillam	+44 20 7418 8900
Michael Burke	
James Smith	

<i>Belvedere Communications</i>	+44 20 3008 6864
John West	
Llew Angus	

Notes to Editors

Focusrite plc is a global audio products group that develops and markets proprietary hardware and software products. Used by audio professionals and musicians, its solutions facilitate the high-quality production of recorded and live sound. The Group trades under eleven established brands: Focusrite, Focusrite Pro, Novation, Ampify, ADAM Audio, Martin Audio, Optimal Audio, Linea Research, Sequential, Oberheim and Sonnox.

With a high-quality reputation and a rich heritage spanning decades, its brands are category leaders in the music-making and audio recording industries. Focusrite and Focusrite Pro design and manufacture audio interfaces and other products for recording musicians, producers and professional audio facilities. Novation and Ampify products are used in the creation of electronic music, from synthesizers and grooveboxes to industry-shaping controllers and inspirational music-making apps. ADAM Audio studio monitors have earned a worldwide reputation based on technological innovation in the field of studio loudspeaker technology. Martin Audio designs and manufactures performance-ready systems across the spectrum of sound reinforcement applications. Linea Research designs, develops, manufactures and sells market innovative professional audio equipment globally. Sequential designs and manufactures high-end analogue synthesizers under the Sequential and Oberheim brands. Sonnox is a leading designer of innovative, high quality, award-winning audio processing software plug-ins for professional audio engineers.

The Group has offices in four continents and a global customer base with a distribution network covering approximately 240 territories.

Focusrite plc is traded on the AIM market of the London Stock Exchange.

Business and operating review

Overview

We are pleased to report our financial results and summary of operations for the six months ended 28 February 2023.

Overall demand for the Group's products across our Content Creation and Audio Reproduction divisions has remained resilient notwithstanding the challenging macroeconomic backdrop and our diversification across these two divisions has proven to be an effective strategy over the past four years. When the pandemic hit during FY20 and live events were effectively shut down, our Content Creation division experienced unprecedented growth, offsetting the large decline in the Audio Reproduction division revenue. This past half year, demand for Content Creation solutions has softened albeit it remains at a higher level than pre-pandemic. However, we have seen demand for our Audio Reproduction product portfolio exceeding pre-pandemic levels, supported by new products developed during the pandemic and a strengthened supply chain, especially since the acquisition of Linea Research in March 2022. With revenue for our Audio Reproduction brands up 50.7% and our Content Creation brands down 16.1%, overall Group revenue for HY23 is down 7.2% when compared to HY22. On an organic constant currency basis, the Audio Reproduction division was up 25.3% with the Content Creation division down 25.2%, resulting in Group revenue down 19.0%.

The Group's stronger gross margins at 47.1% (HY22: 46.6%) have been the result of proactively managing our logistics and routes to market, as well as increasing prices on some elements of our product portfolio. These efforts, along with a continued easing in freight costs, normalising of component prices, and a reduction in supply chain issues have resulted in an improvement in gross margin compared with both H1 and H2 of the prior year.

In December 2022, the Group announced that it had acquired Sonnox, a leading software developer of audio plug-ins and tools used in every aspect of the audio industry, including music production, television, film, and live broadcasting. Sonnox is based near Oxford, United Kingdom. Beyond the additional revenue of Sonnox's portfolio, many opportunities for collaboration between Sonnox and the Group's other industry leading brands are being pursued. This was one of the key reasons for making the acquisition and we are extremely pleased with the integration and co-collaboration achieved to date.

People, Culture and Strategy

One of our greatest assets is our enormously talented and passionate group of employees who work tirelessly to develop and improve our industry leading brands. They are committed to audio excellence and have rallied around a common mission of '*Removing Barriers to Creativity*' with great enthusiasm.

Our customer base continues to grow, encompassing a much wider range of users from the beginner or enthusiast level right through to professionals and corporate, educational or other enterprise facilities. At all levels, our customers depend on our products and solutions to provide the highest quality audio possible in

an environment where our technology aids their experiences, instead of getting in the way.

Our growth strategy is centred around innovation, market expansion and lifetime value for our customers, as well as creating a great place to work. The Group has executed well on all of these, adding new products to our portfolio, expanding our global reach in strategic areas, and maintaining industry leading Net Promoter Scores ('NPS').

Environmental, Social and Governance ('ESG') priorities form an important and growing pillar of the culture across the Group, centred around the objective of creating a 'Great Place to Work', not just for employees but also within society and the environment. We have expanded our efforts on eNPS (employee Net Promoter Score), talent acquisition, Diversity and Inclusion (D&I) initiatives, wellness programmes, community employment opportunities and charitable work to involve all of our business units across the globe.

Our ESG work relating to the environment continues to develop and since our last Annual Report, we have made solid progress towards having our first standalone TCFD report, which we expect to complete this year. Alongside this, the Group is also working with McGrady Clarke and utilising the Ecoinvent Database to help us plan out our Science Based Targets trajectory. In parallel, new products across the Group will incorporate recycled materials and plastic free boxes wherever feasible.

Operating review

Our Group's portfolio consists of eleven leading brands across five main businesses, which are categorised into two divisions, Content Creation and Audio Reproduction.

Content Creation includes:

- Focusrite Audio Engineering (FAEL): Focusrite, Focusrite Pro, Novation and Ampify
- ADAM Audio
- Sequential and Oberheim
- Sonnox

Audio Reproduction consists of:

- Martin Audio: Martin Audio, Optimal Audio and Linea Research

Segmental analysis can be found in the table below:

	Six months to 28 February 2023 £'000	Six months to 28 February 2022 £'000	Year to 31 August 2022 £'000
Revenue from external customers			
Focusrite	40,084	54,914	97,186
Novation	8,241	10,511	20,583
ADAM Audio	10,161	8,420	17,797
Sequential	8,679	6,589	16,249
Sonnox ¹	306	-	-
Content Creation	67,471	80,434	151,815
Martin Audio (including Optimal Audio and Linea Research ¹)	18,772	12,459	31,918
Audio Reproduction	18,772	12,459	31,918
Total	86,243	92,893	183,733

¹ Revenue from date of acquisition

Content Creation

Our Content Creation brands bring best in class audio recording technology, electronic music instruments and controllers, and studio reference monitors to content creators at all levels.

Our products are showcased in the finest recording and postproduction studios in the world, as well as in the homes of millions of hobbyists and aspiring professionals. Over the pandemic, across our 2020 and 2021 financial years, we saw accelerated growth as more customers sought solutions for creating and streaming content. This half year has seen a slight softening in the market due to global macroeconomic issues, as well

as a phasing of inventory into the channel in late FY22 to ensure that adequate supply for the November and December holiday season was available. Overall, revenue in HY23 is down 16.1% compared to HY22, but demand compared with pre pandemic levels is still materially higher, with external customer registrations over the November and December 2022 holiday season up 22.1% compared to the same period in 2019.

Focusrite audio interfaces, comprised of our Scarlett, Clarett and Vocaster ranges, are a suite of audio interfaces designed to allow both beginners and professionals alike to create the best quality audio possible. These products are core to home recording and audio streaming.

During this half year inventory in our sales channels reduced by approximately one month compared to a slight build in the first half of last year, resulting in lower sales into the channel compared to the first half of FY22, in part due to preparations for a programme of product releases in the second half of this year. Global macroeconomic issues have impacted all regions, with market data indicating that North America was down at least 8%, and other regions declining further. However the sell-through to customers is still significantly ahead of pre-pandemic levels, and we have retained market share, consistently appearing as top sellers on leading external e-Commerce sites in the US and Europe. Vocaster sales have been below expectations due to a decrease in new podcasts since the end of the high growth experienced during the pandemic. We have reset our expectations for this product set, but still believe it is a viable segment. Overall, these factors resulted in a 27.1% decline in revenue, when compared with HY22. The Group is expecting a stronger second half driven by new product introductions.

Focusrite Pro offers a suite of solutions for professionals that employ audio over "audio over internet protocol" (AOIP) technology for scale in enterprise solutions. This sector of our business was the hardest hit by the AKM chip manufacturer's fire in Japan in October 2020 that required in a re-engineering of much of the portfolio, with many products in the portfolio only coming back into the market very late in the first half, after over 24 months' disruption. On a like for like basis, revenue decreased by 16.0% compared to HY22. Despite supply issues, underlying demand for the products has continued to be strong, fuelled by the ever-increasing amount of new content being generated for consumers, wider acceptance of enhanced formats, such as Dolby ATMOS, and more and more professionals adopting networked audio. The re-engineering of these products will complete in the second half with a return to normal shipping levels expected later in the year.

Our **Novation** brand is dedicated to the art of the electronic musician, and offers a range of solutions including groove boxes, controllers, synthesizers and desktop and iOS creation apps. This past year saw the introduction of several new keyboard controllers, including the Launchkey 88, Sound on Sound's winner for "Best Performance Controller". Revenue for Novation products was down 21.9% during the first half, due mainly to tough comparatives with the same period last year that saw a number of new product introductions as well as a period of component rework on most of the brand's synthesizers, due to component issues. We are expecting Novation to perform better in the second half due to availability of the reworked synthesizers, and a number of new product introductions.

ADAM Audio based in Berlin, is a globally recognised brand with a passionate team focused on delivering world-class monitor speakers for audio content creators. ADAM Audio's portfolio of reference monitors encompasses the T-Series, A-Series, and S-Series. The T-Series speakers are award winning reference monitors designed for the home studio market. The A-Series are used in both high-end home studios and professional facilities alike, and the enterprise level S-Series are showcased in some of the most prestigious audio production facilities in the world. ADAM had a solid recovery coming off a weak first half last year when component shortages impacted T-Series products as well as the launch of the new A-Series. Both product lines are in full production with good line of sight on components as well as finished inventory. The new A-Series won the prestigious Sound on Sound "Best Studio Monitor" award for 2022. Revenue for ADAM was up 21.9% in HY23 compared to HY22.

Sequential, based in San Francisco, was acquired in April 2021. The Sequential brand is legendary in the industry and is synonymous with world class analogue synthesizers. It has been at the forefront of electronic music innovation for over 40 years. Additionally, last May, the Group acquired the exclusive rights to another prestigious synthesizer brand, **Oberheim**, which now operates under the Sequential entity as a separate brand. Since acquiring Oberheim, we have launched the OBX8, a modern day faithful recreation of three classic Oberheim synthesizers. The OBX8 has won numerous industry awards during this first half and is considered the most coveted high-end synthesizer on the market. Sequential also released the Trigon6, a Sequential branded synthesizer with unique filtering that has very recently been introduced into the market.

The Group continues to expand Sequential's distribution and demand generation activities by leveraging the scale of the Content Creation division's highly effective global sales teams. Overall, Sequential had a strong first half, with revenues increasing by 33.5% when compared to the same period in the previous year.

Audio Reproduction

Our Audio Reproduction brands provide high quality, professional solutions for both permanent installations and live sound events. During the first half of the year the division has seen continued growth in installations as well as a global bounce back in live sound purchases. In addition to strong organic growth, the Group acquired Linea Research in March 2022. Linea Research has integrated well into the wider Group, providing a consistent supply of power amplification technology for Martin Audio's solutions as well as continuing to offer its own product line to a range of OEM customers. Optimal Audio, our commercial audio brand, also saw growth year over year as we began shipping complete systems after a period of unavailability due to component shortages late last year. As a result, overall revenues for the Audio Reproduction division are up 50.7% compared to the prior year with a strong sales pipeline across all sectors giving us cause for optimism for the second half.

Research and development

R&D remains a cornerstone of our Group's strategy. In this period, the Group launched 21 new products to market as well as a host of software and hardware upgrades. As reported above, the Group has a very important set of product introductions scheduled for the second half of this financial year with major launches planned in most brands across the portfolio.

Regional review

	Six months to 28 February 2023 £'000	Six months to 28 February 2022 £'000	Year to 31 August 2022 £'000
North America	36,309	39,763	74,509
Europe, Middle East and Africa ('EMEA')	36,644	35,424	70,110
Rest of World ('ROW')	13,290	17,706	39,114
Total	86,243	92,893	183,733

North America

North America represented 42% of total revenue during the half year. Focusrite, Novation, ADAM Audio, and Sequential/Oberheim products are sold through similar sales channels, whilst Martin Audio's North America business is transacted through a mix of live/tour sound rental companies, system integrators, and direct to end-users. In North America we continue to invest in sales, marketing, logistics and customer service to support both divisions. Revenue for the Group's brands in North America was down 8.7% compared to HY22, reflecting the issues discussed in the divisional analysis above.

The Group's Content Creation portfolio was down 15.3% year over year in North America. This was partially due to some softness in the market as well as reduced shipments on a number of key products that are undergoing product transitions in the second half.

Our Audio Reproduction portfolio was up 70.9%, highlighting the return to growth in this market as the impact of the easing of lockdowns restrictions has paved the way for a return to live music.

EMEA

EMEA was our largest region during the half, representing 43% of total revenue for the Group. Revenue for the Group's brands in EMEA was up 3.4% when compared to HY22. Like North America, our Content Creation portfolio, Focusrite, Novation, ADAM Audio and Sequential/Oberheim, utilise a very similar set of distributors and resellers. At the beginning of this fiscal year, the Group initiated a consolidated "go to market" strategy for our Content Creation brands across EMEA. This has proven to be very successful, giving us more leverage within our channel, and providing a scalable structure for future growth and expansion. Overall, our EMEA's Content Creation division was down 9.0% compared to HY22, driven by softer demand, a planned reduction of inventory in advance of product releases in the second half and a phasing of inventory

late last fiscal year to ensure adequate inventory levels for the holiday season.

Our Audio Reproduction division, Martin, Optimal and Linea Research, transact through a combination of distributors, system integrators and live sound rental companies. This division saw strong growth of 91.5%, when compared to HY22 with revenues now above pre-pandemic levels, albeit from a relatively low base last year.

ROW

ROW comprises all other regions outside of EMEA and North America, principally made up of Asia Pacific ('APAC') and Latin America ('LATAM') and constitutes 15% of total Group revenue. Both regions had a challenging first half, primarily driven by macroeconomic issues that have impacted these areas more significantly than others.

APAC, like North America and EMEA, utilises similar distribution and reseller channels for the Content Creation division. Our Audio Reproduction division utilises a combination of distributors, system integrators and rental companies. APAC has been a very challenging region during the first half, due to a combination of high inflation, currency swings, and continuing COVID lockdowns. For our Content Creation division, APAC was down 33.8% compared to HY22, with the majority of the decline in China, South Korea, and Japan. For the Audio Reproduction business, APAC was down 4.3%, illustrating just how impactful the above mentioned factors have been in these regions when compared to the very high growth rates elsewhere across the globe.

LATAM was similarly impacted in the Content Creation division, down 39.6% Compared to HY22. This was partially offset with Audio Reproduction being up 370%, albeit from a very low base in the prior year.

For both regions in ROW, we are seeing positive signs of both divisions re-stabilising and demand starting to increase again. We continue to view both these regions as potential high growth areas and will continue to invest in people, localisation efforts, and refined routes to market.

We are confident that both regions will revert to positive growth in the near future.

Financial Review

Overview

Against a difficult and often volatile economic backdrop, the Group delivered revenue of £86.2 million, 7.2% lower than during the six months to 28 February 2022 and adjusted¹ EBITDA ² of £18.1million, 18.8% lower than the comparable period, with the lower sales volumes resulting in lower profits despite stronger gross margins and actions taken to manage costs.

Reported operating profit was £ 11.5 million (HY22: £16.3 million) and reduced for the same reasons. Similarly, adjusted¹ diluted EPS³. of 18.0 pence is lower than the prior year's of 26.2 pence (restated - see note 1.8).

Income statement

	HY23 £m	HY23 £m	HY23 £m	HY22 £m	HY22 £m	HY22 £m
	Adjusted	Adjusting items ¹	Reported	Restated ³ Adjusted	Restated ³ Adjusting items ¹	Restated ³ Reported
Revenue	86.2	-	86.2	92.9	-	92.9
Cost of sales	(45.6)	-	(45.6)	(49.6)	-	(49.6)
Gross profit	40.6	-	40.6	43.3	-	43.3
Administrative expenses	(26.4)	(2.7)	(29.1)	(24.2)	(2.8)	(27.0)
Operating profit	14.2	(2.7)	11.5	19.1	(2.8)	16.3
Net finance (expense)/income	(0.6)	-	(0.6)	0.2	-	0.2
Profit before tax	13.6	(2.7)	10.9	19.3	(2.8)	16.5
Income tax expense	(3.0)	0.6	(2.4)	(3.8)	0.8	(3.0)
Profit for the period	10.6	(2.1)	8.5	15.5	(2.0)	13.5
	HY23 £m	HY23 £m	HY23 £m	HY22 £m	HY22 £m	HY22 £m

	Adjusted	Adjusting items ¹	Reported	Adjusted	Adjusting items ¹	Reported
Operating profit	14.2	(2.7)	11.5	19.1	(2.8)	16.3
Add - amortisation of intangible assets	2.8	1.5	4.3	1.9	2.2	4.1
Add - depreciation of tangible assets	1.1	-	1.1	1.2	-	1.2
EBITDA ²	18.1	(1.2)	16.9	22.2	(0.6)	21.6

1 Adjusted for amortisation of acquired intangible assets, sale of trademark and other adjusting items detailed in note 4 to the Interim Financial Statements

2 Earnings Before Interest, Tax, Depreciation and Amortisation

3 Restated to include the deferred tax credit arising on the amortisation of acquired intangibles, which was not previously included. See note 1.8 to the interim financial statements.

Revenue

Revenue for the Group declined by 7.2% to £86.2 million (HY22: £92.9 million) which, adjusting for acquisitions and constant currency, represents an organic constant currency decline of 19.0%. Linea Research was purchased in March 2022 and contributed revenue of £2.4 million, ahead of our expectations, in the first half of FY23. Sonnox was acquired in December 2022 and contributed £0.3 million, in line with our expectations.

As previously reported the Group's divisions have faced macroeconomic and industry challenges during this first half.

Within the Content Creation division, the easing of component supply issues resulted in industry-wide restocking across sales channels in FY22, at a time when demand was being impacted by cost-of-living issues, resulting in significant surplus inventory across the channels by the beginning of HY23. As a result, HY23 experienced channel de-stocking and a consequent slowing of orders which, together with a planned reduction ahead of a programme of product releases in the second half which resulted in a 27.1% decline for Focusrite (35% on an organic constant currency basis). However, ADAM Audio and Sequential both delivered significant double-digit growth, although both are reporting against comparators impacted by the lack of availability of components in the first half of FY22. The Audio Reproduction division has seen a resurgence in demand in the live music sector, across most geographies, with the exception of Asia. Overall this division experienced strong growth despite some ongoing component supply issues.

Pleasingly, underlying demand has continued to remain at levels significantly higher than pre pandemic, with the current half year still 52% ahead of HY20 on a reported basis for our Content Creation division. During the second half of the year we expect inventory to begin to reduce across our distribution channels, and together with the introduction of new products later in the year, we expect a greater weighting of sales in the second half of the year and into H1 2024.

	HY23 Reported	HY23 Acquisitions ²	HY23 As adjusted	HY22 Reported	HY22 Exchange ¹	HY22 As adjusted	Reported Growth	OCC Growth ¹
Focusrite	40.1	-	40.1	54.9	6.6	61.5	-27.1%	-35.0%
Novation	8.2	-	8.2	10.5	1.0	11.5	-21.9%	-28.7%
ADAM	10.1	-	10.1	8.4	0.7	9.1	21.9%	12.2%
Sequential	8.7	-	8.7	6.6	1.0	7.6	33.5%	15.6%
Sonnox	0.3	(0.3)	-	-	-	-	N/A	N/A
Content Creation	67.4	(0.3)	67.1	80.4	9.3	89.7	-16.1%	-25.2%
Martin	18.8	(2.4)	16.4	12.5	0.7	13.2	50.7%	25.3%
Total	86.2	(2.7)	83.5	92.9	10.0	102.9	-7.2%	-19.0%

[1] Organic constant currency (OCC) growth rate is calculated by comparing FY23 revenue to FY22 revenue adjusted for FY23 exchange rates and the impact of acquisitions

2 Linea Research acquired in March 2022, Sonnox acquired in December 2022

Currency impact

Both the Euro and the US Dollar strengthened during the period (with detail of rate movements provided on the following pages). This has resulted in a £10.0 million positive translation impact on revenue for the Group for HY23 relative to HY22. However, at the profit level the USD effect is mitigated by the purchases of inventory in USD from the manufacturers in China and Malaysia and the Euro effect on profit is largely mitigated by the Group's hedging policy, such that the translation impact between periods is not material.

Segment profit

Segment profit is disclosed in more detail in note 3 to the Interim Financial Statements named, 'Operating Segments'. These segments compare the revenue of the products of the relevant brands with the directly attributable costs to create segment profit.

Gross profit

In HY23, the gross margin was 47.1%, up from 46.6% in HY22 and 3.0% points higher than the second half margin in FY22 of 44.1%. As expected freight costs eased during the half year, returning to pre pandemic levels, benefitting margin by 4.1% points. This was largely offset by a reduction in product margins as cost increases in the second half of FY22 began to impact, together with the promotional campaigns, highlighted during the year end results, which were in place to ensure we remained competitive in the current very price sensitive market environment.

We expect promotional activity on existing products to continue into the second half of the year for the Content Creation brands at a higher level than previously anticipated, with Audio Reproduction beginning to benefit from a price increase put into effect from March 2023. As a result, we expect gross margins to reduce slightly for the remainder of the year.

Administrative expenses

Administrative expenses consist of sales, marketing, operations, the uncapitalised element of research and development (partially offset by the Research and Development Expenditure Credit regime ('RDEC') tax credit of £0.4 million) and central functions such as legal, finance and the Group Board. These expenses were £29.2 million, up from £27.0 million last year. Excluding adjusting costs of £2.7 million (HY22: £2.8 million) (see Adjusting items section), the operating costs were £26.5 million (HY22: £24.2 million).

The increase in administrative expenses of £2.3 million is due mainly to both an increase in amortisation of intangible assets of £0.9 million, reflecting the recent launches of new products and the impact of companies acquired since the first half of FY22 which contributed an additional £0.8 million of this increase. During the half year, the Group restructured to realign teams to our new regional and brand organisational structure, resulting in a reduction of 14 roles across the Group at a one-off cost of £0.4 million and annualised savings of £0.6 million.

Adjusted EBITDA

Adjusted EBITDA is an alternative performance measure which is widely used by securities analysts, investors and other interested parties to evaluate the profitability of companies. It is also used within the Group as the basis for some of the incentivisation of senior management at both the operating company level and the Group level. Adjusted EBITDA decreased from £22.2 million in HY22 to £18.1 million in HY23, a decrease of 18.8%. The decrease of £4.1 million was due to lower sales volume, not fully offset by increased gross margins and relatively stable underlying operating costs. A reconciliation of adjusted EBITDA to operating profit can be found in note 4.

Depreciation and amortisation

Depreciation is charged on tangible fixed assets on a straight-line basis over the assets' estimated useful lives, normally ranging between two and five years. Amortisation is mainly charged on capitalised development costs, writing-off the development cost over the life of the resultant product. The life spans of the products vary across our brands, from three years for Focusrite and Novation, up to eleven years for Martin Audio and fifteen for Sequential, reflecting the different lifespans of the products.

The amortisation of the acquired intangible assets totalled £1.5 million during the period (HY22: £2.2 million) and has been disclosed within adjusting 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. This has offset the underlying increase of amortisation of acquired intangibles due to the Sonnox acquisition this year and the full period impact of the Research acquired in FY22.

Impact of Linea Research, acquired in FY22.

Across the Group, £4.3 million of development costs were capitalised (HY22: £3.2 million) and the amortisation of capitalised development costs was £2.3 million (HY22: £1.5 million). Further details are shown in note 8, with added disclosure to highlight the movement from technology, products and patents in development to those now in use.

Adjusting items

In HY23 adjusting items totalled £2.7 million (HY22 £2.8 million), comprising £0.3 million which related mainly to the due diligence costs for the acquisition of Sonnox that was completed on 19 December 2022, £0.5 million related to the earn-outs put in place after the acquisitions of Sequential and Linea Research in prior years, £0.4 million related to restructuring activities in the half year and £1.5 million related to amortisation of acquired intangible assets.

In HY22, the adjusting items included £0.3 million which related to the due diligence costs for the acquisition of Linea Research that was completed on 10 March 2022, £1.1 million related to the Sequential earn out, and £2.2 million related to amortisation of acquired intangible assets offset by £0.8 million of income from the sale of a trademark.

Foreign exchange and hedging

The exchange rates were as follows:

Exchange rates	HY23	HY22	FY22
Average			
USD:GBP	1.19	1.35	1.31
EUR:GBP	1.15	1.18	1.18
Period end			
USD:GBP	1.21	1.34	1.16
EUR:GBP	1.14	1.20	1.16

The average USD rate has strengthened to \$1.19 for HY23 (HY22: \$1.35). The USD accounts for over half of Group revenue but nearly all of the cost of sales so there is a useful natural hedge.

The Group enters into forward contracts to convert Euro to GBP. The policy adopted by the Group is to hedge approximately 75% of the Euro flows for the current financial year (year ending August 2023) and approximately 50% of the Euro flows for the following financial year (year ending August 2024).

In HY23, approximately three-quarters of Euro flows were hedged at €1.17, and the average transaction rate was €1.15, thereby creating a blended exchange rate of approximately €1.16. In HY22, the equivalent hedging contracts were at €1.13, versus the transactional rate of €1.18 and so creating a blended exchange rate of €1.15.

Hedge accounting is used, meaning that the hedging contracts have been matched to income flows and, providing the hedging contracts remain effective, movements in fair value are shown in a hedging reserve in the balance sheet, until the hedge transaction occurs.

Corporation tax

The effective tax rate for the period has increased to 22.4% (HY22: 18.6%), as a result of brought forward losses are now being fully utilised, a greater proportion of the Group's profits arising outside the UK and the increase in the UK headline corporation tax rate from 1 April 2023. In both years the rate has been impacted by the disallowance for corporation tax of certain adjusting item costs for corporation tax, including depreciation of acquired intangibles and costs relating to due diligence on acquisitions. Since September 2020 the Group has been part of the RDEC tax scheme for R&D credits, and as a result a credit of £0.4 million has been recognised against uncapitalised R&D costs within Administrative expenses, which is taxable.

Earnings per share ('EPS')

The basic EPS for the half year was 14.4 pence, down 37.7% from 23.1 pence in HY22. This decrease has

largely resulted from the change in reported profit after tax. The weighted average number of shares used for the calculation has increased marginally compared to the prior year at 58,494,265 shares (HY22: 58,215,504 shares). The more comparable measure, excluding adjusting items and including the dilutive effect of share options, is the adjusted diluted EPS. This decreased to 18.0 pence, from 26.2 pence in HY22 (restated), a decrease of 31.3%. This measure has been restated to include the deferred tax credit arising on the amortisation of acquired intangibles, which was not previously included. See note 1.8 to the financial statements.

	HY23	HY22	FY22
	Pence	Pence ¹	Pence ¹
Basic	14.4	23.1	42.5
Diluted	14.3	22.8	42.1
Adjusted basic	18.2	26.5	50.5
Adjusted diluted	18.0	26.2	49.9

¹ Restated to include the deferred tax credit arising on the amortisation of acquired intangibles, which was not previously included. See note 1.8 to the interim financial statements.

Balance sheet

	HY23	HY22	FY22
	£m	£m	£m
Non-current assets	95.2	66.2	87.5
Current assets			
Inventories	50.7	25.7	48.3
Trade and other receivables	27.5	23.7	28.9
Cash	13.5	17.8	12.8
Current liabilities			
Trade, other payables and provisions	(30.3)	(29.9)	(41.2)
Bank loan or overdraft	(26.8)	0.2	(13.1)
Non-current liabilities			
Deferred tax	(10.6)	(6.2)	(9.1)
Other non-current liabilities	(8.6)	(3.4)	(8.8)
Net assets	110.6	94.1	105.3
Working capital ¹	47.9	19.5	36.0

¹ Working capital is defined as Inventories plus trade and other receivables less trade and other payables and provisions

Non-current assets

The non-current assets comprise: goodwill, brands, patents and capitalised development costs; property, plant and equipment; and software.

The goodwill totals £16.4 million (HY22: £9.7 million). The increase is due to the addition of Linea Research at £3.4 million and Sonnox at £2.7 million, together with foreign exchange movements on the existing items.

The total cost of the brands is £26.4 million (HY22: £19.8 million). This has increased due to the addition of the Linea Research brand (£0.9 million), Oberheim brand (£4.7 million) and Sonnox brand (£0.4 million). The majority of brands are being amortised over 10 and 15 years with Martin over 20 years. At 28 February 2023 the brands had carrying value, net of amortisation, of £21.6 million compared to £16.8 million as at 28 February 2022.

The capitalised technology and patent costs comprise acquired and internally generated technology and patent costs for products currently in use. The amortisation periods range from three years to fifteen years depending on the expected life of the products. The shorter amortisation periods are more usual for Focusrite and Novation products and the longer periods for the ADAM Audio monitors, Martin Audio live speakers and Sequential synthesisers. The capitalised technology and patent costs as at 28 February 2023 had a carrying value, net of amortisation, of £34.9 million (HY22: £30.9 million).

Capitalised technology and patent costs still under development comprise acquired and internally generated technology and patent costs for products currently still in development. The cost of these items has increased from £8.3 million at 1 September 2022 to £8.5 million at the 28 February 2023, as a result of our

ongoing investment in new products, net of the transfer of £3.4 million of costs to products now in use. These costs are not amortised and, following a review of our calculations this year, we have reversed £1.0 million of amortisation on acquired intangibles in development which had been incorrectly amortised from the date of acquisition and not the date of use.

Based on current trading and management forecasts, we have conducted impairment reviews for those subsidiaries impacted by difficult markets with no impairments to the carrying value of the intangible assets being deemed necessary. This will be reassessed at the year-end for any evidence of any permanent diminution in value.

Overall, amortisation of the intangible assets totals £4.4 million (HY22: £4.1 million). This is split between amortisation of intangible assets acquired as part of the acquisitions of £1.5 million (HY22: £2.2 million), and other amortisation of £2.9 million (HY22: £1.9 million). The amortisation of acquired intangible assets has been treated as an adjusting item. The difference in the period between ongoing amortisation of development costs and capitalised development costs is £2.0 million (HY22: £1.7 million).

The remaining £13.8 million (HY22: £8.6 million) of non-current assets consist mainly of right of use assets relating to the Group's leased offices and warehouses, tooling equipment for the manufacture of products and other intangible assets such as software and trademarks. This has increased since the last year due to the acquisition of the Linea offices and the inception of a new lease as Focusrite moves to a new headquarters in High Wycombe.

Working capital

Working capital at 28 February 2023 was 27.0% of the last 12 months revenue (HY22: 11.4%). Working capital has increased at the half year, as we build inventory to support product transitions and launches in the second half of the year and due to a low level of trade creditors at the half year, due to the phasing of production levels, which we expect to increase by the year end. We anticipate that the inventory position will remain stable across the second half of the year, but creditors will have normalised by the end of the year enabling the Group to return to historic and more resilient levels of working capital at around 20% of revenue. As is our practice, creditors continue to be paid in a timely manner.

Cash flow

	HY23	HY22	FY22
	£m	£m	£m
Cash and cash equivalents at the beginning of the year	12.8	17.3	17.3
Foreign exchange movements	0.1	-	0.7
Cash and cash equivalents at the end of the year	13.5	17.8	12.8
Net increase/(decrease) in cash and cash equivalents (per Cash Flow Statement)	0.6	0.5	(5.2)
Change in bank loan	(13.7)	-	(13.2)
(Increase)/decrease in net debt	(13.1)	0.5	(18.4)
Add back equity dividend paid	2.4	2.2	3.2
Add back acquisition of subsidiary (net of cash acquired)	7.2	-	10.9
Free cash (outflow)/inflow	(3.5)	2.7	(4.3)
Add back non underlying items (cash outflow)	1.2	0.6	0.9
Underlying free cash (outflow)/inflow ¹	(2.3)	3.3	(3.4)

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

The underlying free cash outflow in HY23 was £2.3 million, which was -2.7% of revenue. In the comparative period, the underlying free cash inflow was £3.3 million which was 3.5% of revenue. Underlying free cash flow as a percentage of revenue is a key performance measure within the Group and forms an element of the incentivisation metrics for senior management across the Group. We expect underlying free cashflow this year to be lower than our historic norm of approximately 10- 12% of revenue due to the impacts on inventory outlined above.

Reported free cash outflow is -4.0% of revenue and is impacted by similar issues as underlying free cashflow. In the current first half year adjusting items relate to the payment of the final payment of the Sequential earn out and the acquisition costs and restructuring costs as outlined in note 4 to the Interim Financial Statements. In the prior year they related to payment of the first part of the Sequential earn out and the income received from the sale of a trademark.

The net debt balance at the period end was £13.2 million (HY22: net cash of £18.0 million and FY22: net debt of £0.3 million). The net debt includes the arrangement fee for the RCF of £0.1 million which is being amortised across the period of the facility. The increase in net debt since the beginning of HY22 principally reflects the increase in working capital noted above, the acquisition of Sonnox for £7.2 million in December 2022 and the acquisition of Linea Research for £12.3 million in March 2022. The Group has a £40 million revolving credit loan facility split evenly between HSBC and NatWest due for renewal in December 2024. As at the balance sheet date £26.9 million was drawn down from the facility (HY22: nil, FY22 £13.2 million).

Dividend

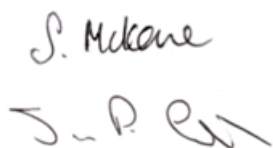
The Board has approved an interim dividend of 2.1p (HY22: 1.85p) an increase of 13.5%, in line with the Group's progressive dividend policy, and reflecting the Board's confidence in the Group's prospects and future cash generating prospects.

Summary and Outlook

Focusrite plc is a much bigger business since pre-COVID with eleven brands operating globally across different, but complementary markets. This past half year has showcased just how well the Group's diversification strategy has paid off, giving us increased resilience in the face of global and industry wide headwinds.

Revenue in our Content Creation division has been impacted by some industry-wide surplus channel inventory and softening in demand along with a planned channel inventory reduction ahead of a large product release programme coming in the second half. Pleasingly, our Audio Reproduction division, as anticipated, has experienced strong growth and is now ahead of pre pandemic levels. Despite challenging markets, we are still showing material growth over pre pandemic levels and have retained our strong market share, underscored by rock solid brand positions.

Trading since the half year has remained solid. The outlook for the Group is positive with inventory in the channel beginning to improve and continued strength in the buoyant live sound market. We anticipate revenue growth in the second half to be in line with expectations, driven by a number of planned key product introductions alongside slightly elevated costs due to promotions for existing products. We continue to execute on our established and proven growth strategy combining organic growth with focussed M&A activity.



Tim Carroll
Chief Executive Officer
24 April 2023

Sally McKone
Chief Financial Officer
24 April 2023

Risks and Uncertainties

The Board has considered the principal risks and uncertainties as presented in the 2022 Annual Report and has determined that they broadly remain relevant to the rest of this financial year, with the updates as set out below. Such risks and uncertainties could have a material impact on the Group's performance although they are not expected to cause the Group's actual results to differ materially from the expected results.

People

The job market changed post-pandemic with candidates now having more choice. We continue to experience skill shortages in some areas, namely in technical and in lower skilled production/warehouse roles. Our recruitment process has been successfully accelerated and we now promote all vacancies internally which has helped us to fill some vacancies more quickly. In addition, and in conjunction with our commitment to being

"a great place to work", we have taken steps to increase training and upskill our people.

ESG and our sustainability strategy

Our aim is to become industry leaders in environmental sustainability. We shared our Strategy and Targets on page 53 of the 2022 Annual Report, which includes having a target to reduce and neutralise product Green House Gas emissions by 2030. Additionally, we have started to incorporate the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations into our processes ahead of the mandatory compliance deadline at the end of this financial year. More information about our identified Climate Risks and Opportunities can be seen across pages 43 to 57 of the FY22 Annual Report.

In the first half of this year, we have continued with our programme of linking tree planting to wood consumption in our products across the group - ensuring there is a minimum of 10x more wood growing in the world than we consumed. Through these efforts, we have already planted over 70,000 new trees. Our dedication to sustainability remains a top priority, and we look forward to sharing progress on our initiatives and commitment to the Science Based Targets Initiative.

Doing Business in China

Whilst we have a long-established relationship with our business partners in China political discourse is becoming more strained with governments around the world implementing measures to protect their domestic interests. Geo-political tensions have been heightened by Russia's invasion of Ukraine and increased concerns with regard to China's policy towards Taiwan. We recognise that we are highly dependent on China both for its supply of electronic components and the provision of contract manufacturing and, like many companies who sell electronic hardware, have limited alternative options. We monitor the stances governments take and consider how they may affect our business. We recognise that we will need to create effective policies to identify applicable prohibitions and implement responsive procedures such as running restricted party screenings in order to know exactly with whom we are doing business and whether those parties are restricted.

Export control laws creating restrictions on exporting goods are extensive and continue to expand. We monitor legislation and have established relationships with Chinese legal advisers who advise us on compliance with the law and evaluate our long-term goals and business plans. In addition import tariffs on Chinese products affect our profit margins. We continually assess supply chains to identify where vulnerabilities lie and, where possible, we restructure those supply chains to reduce the risk of violations or excessive costs. We continue to explore contract manufacturing opportunities in countries outside of China.

Cost inflation

Cost inflation continues to be widely reported and remains prevalent in most of our major markets. Indications of how cost inflation is impacting the discretionary income available to customers has been felt across all industries and revenue growth has been impacted by macro-economic uncertainty. By remaining competitive in the market and offering premium and desirable products we aim to mitigate this by continuing to be the first choice for customers.

The Group's customers continue to operate in a range of different sectors which reduces the risk of a downturn in a particular sector. As a global Group we operate in different countries and therefore are less exposed if particular countries are impacted. The Group continues to have no operations or customers in Russia, Belarus or Ukraine, a market previously providing an annual revenue of approximately £2million.

Forward looking statements

The risks and uncertainties facing the Group were reported in detail in the 2022 Annual Report and are monitored closely by the Group. The forward-looking statements in this 2023 Half Year Report cannot be relied upon as a guarantee or prediction of future performance. We, like all businesses, continue to face known and unknown risks, uncertainties and other factors, many of which are beyond our control, which may mean our actual results differ from those expressed in this first half year report.

Condensed Consolidated Income Statement

For the six months ended 28 February 2023

	Note	Six months to 28 February 2023 £'000	Six months to 28 February 2022 £'000	Year to 31 August 2022 £'000
Revenue	2	86,243	92,893	183,733
Cost of sales		(45,619)	(49,630)	(100,453)
Gross profit		40,624	43,263	83,280
Administrative expenses		(29,163)	(27,810)	(55,449)
Other income		-	830	830
Adjusted EBITDA (non-GAAP measure)		18,053	22,222	41,663
Depreciation and amortisation		(3,858)	(3,146)	(6,991)
Adjusting items for Adjusted EBITDA:				
Amortisation of acquired intangible assets		(1,504)	(2,236)	(5,116)
Adjusting items	4	(1,230)	(557)	(895)
Operating profit		11,461	16,283	28,661
Finance income		712	351	2,286
Finance costs		(1,290)	(106)	(398)
Profit before tax		10,883	16,528	30,549
Income tax expense	5	(2,434)	(3,075)	(5,773)
Profit for the period from continuing operations		8,449	13,453	24,776
Earnings per share				
From continuing operations				
Basic (pence per share)	7	14.4	23.1	42.5
Diluted (pence per share)	7	14.3	22.8	42.1

Condensed Consolidated Statement of Other Comprehensive Income

For the six months ended 28 February 2023

	Six months to 28 February 2023 £'000	Six months to 28 February 2022 £'000	Year to 31 August 2022 £'000
Profit for the period	8,449	13,453	24,776
<i>Items that may be reclassified subsequently to the income statement</i>			
Exchange differences on translation of foreign operations	(999)	(1,375)	(486)
Gain/(loss) on forward foreign exchange contracts designated and effective as a hedging instrument	194	(144)	(1,009)
Tax on hedging instrument	(38)	27	199
Total comprehensive income for the period	7,606	11,961	23,480
Profit attributable to:			
Equity holders of the Company	7,606	11,961	23,480

Condensed Consolidated Statement of Financial Position

	Note	28 February 2023 £'000	28 February 2022 £'000	31 August 2022 £'000
Assets				

Non-current assets				
Goodwill		16,377	9,710	13,728
Other intangible assets	8	67,909	49,984	61,964
Property, plant and equipment		10,865	6,466	10,870
Deferred tax assets		-	-	938
Total non-current assets	3	95,151	66,160	87,500
Current assets				
Inventories		50,681	25,717	48,340
Trade and other receivables		27,470	22,404	28,520
Derivative financial instruments	9	-	572	-
Current tax asset		-	702	413
Cash and cash equivalents	9	13,527	17,813	12,758
Total current assets		91,678	67,208	90,031
Current liabilities				
Trade and other payables		(26,451)	(27,168)	(36,348)
Other liabilities		(1,448)	(987)	(1,641)
Current tax liabilities		(990)	-	(1,066)
Provisions		(1,327)	-	(1,840)
Bank loans and arrangement fee	9	(26,760)	211	(13,054)
Derivative financial instruments	9	(99)	(1,711)	(293)
Total current liabilities		(57,075)	(29,655)	(54,242)
Net current assets		34,603	37,553	35,789
Total assets less current liabilities		129,754	103,713	123,289
Non-current liabilities				
Deferred tax		(10,561)	(6,182)	(9,130)
Other liabilities		(8,550)	(3,442)	(8,843)
Total non-current liabilities		(19,111)	(9,624)	(17,973)
Total liabilities		(76,186)	(39,279)	(72,215)
Net assets		110,643	94,089	105,316
Equity and liabilities				
Capital and reserves				
Share capital		59	59	59
Share premium		115	115	115
Merger reserve		14,595	14,595	14,595
Merger difference reserve		(13,147)	(13,147)	(13,147)
Translation reserve		(2,014)	(1,904)	(1,015)
Hedging reserve		(99)	572	(293)
EBT reserve		(1)	-	(1)
Retained earnings		111,135	93,799	105,003
Equity attributable to owners of the Company		110,643	94,089	105,316
Total equity		110,643	94,089	105,316

Condensed Consolidated Statements of Changes in Equity

For the six months ended 28 February 2023	Share capital	Share premium	Merger reserve	Merger difference reserve	Translation reserve	Hedging reserve	EBT reserve
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 September 2022	59	115	14,595	(13,147)	(1,015)	(293)	(1)
Profit for the period	-	-	-	-	-	-	-
Other comprehensive (expense)/income for the period	-	-	-	-	(999)	194	-
Total comprehensive (expense)/income for the period	-	-	-	-	(999)	194	-
Transactions with owners of the Company:							
Share-based payment deferred tax deduction in excess of remuneration expense	-	-	-	-	-	-	-
Share-based payment current tax deduction in excess of remuneration expense	-	-	-	-	-	-	-
Shares from EBT exercised	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-
Shares withheld to settle employees' tax obligations associated with share-based payments	-	-	-	-	-	-	-
Premium on shares awarded in lieu of bonuses	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-

Balance at 28 February 2023	59	115	14,595	(13,147)	(2,014)	(99)	(1)
-----------------------------	----	-----	--------	----------	---------	------	-----

Condensed Consolidated Statements of Changes in Equity (Continued)

For the six months ended 28 February 2022	Share capital	Share premium	Merger reserve	Merger difference reserve	Translation reserve	Hedging reserve	EBT reserve
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 September 2021	59	115	14,595	(13,147)	(529)	716	(1)
Profit for the period	-	-	-	-	-	-	-
Other comprehensive (expense)/income for the period	-	-	-	-	(1,375)	(144)	-
Total comprehensive (expense)/income for the period	-	-	-	-	(1,375)	(144)	-
Transactions with owners of the Company:							
Share-based payment deferred tax deduction in excess of remuneration expense	-	-	-	-	-	-	-
Share-based payment current tax deduction in excess of remuneration expense	-	-	-	-	-	-	-
Shares from EBT exercised	-	-	-	-	-	-	1
Share-based payments	-	-	-	-	-	-	-
Shares withheld to settle employees' tax obligations associated with share-based payments	-	-	-	-	-	-	-
Premium on shares awarded in lieu of bonuses	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-
Balance at 28 February 2022	59	115	14,595	(13,147)	(1,904)	572	-

Condensed Consolidated Statements of Changes in Equity (Continued)

For the year ended 31 August 2022	Share capital	Share premium	Merger reserve	Merger difference reserve	Translation reserve	Hedging reserve	EBT reserve
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 September 2021	59	115	14,595	(13,147)	(529)	716	(1)
Profit for the period	-	-	-	-	-	-	-
Other comprehensive income for the period	-	-	-	-	(486)	(1,009)	-
Total comprehensive (expense)/income for the period	-	-	-	-	(486)	(1,009)	-
Share-based payment deferred tax deduction in excess of remuneration expense	-	-	-	-	-	-	-
Share-based payment current tax deduction	-	-	-	-	-	-	-
EBT shares issued	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-
Shares withheld to settle employees' tax obligations associated with share-based payments	-	-	-	-	-	-	-
Premium on shares awarded in lieu of bonuses	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-
Balance at 31 August 2022	59	115	14,595	(13,147)	(1,015)	(293)	-

Consolidated Statement of Cash Flow

For the six months ended 28 February 2023

		Six months to 28 February 2023 £'000	Six months to 28 February 2022 £'000	Year to 31 August 2022 £'000
Note				
Cash flows from operating activities				
	Profit for the period	8,449	13,453	24,776
	Adjustments for:			
	Income tax expense	2,434	3,075	5,773
	Net interest charge/(income)	578	(228)	(1,888)
	Loss on disposal of property, plant and equipment	-	15	24
	Loss/(gain) on disposal of intangible assets	27	(24)	105
	Gain on sale of trademark	-	(830)	(830)
	Amortisation of intangibles	4,389	4,093	9,883
8	Depreciation of property, plant and equipment	1,085	1,289	2,223
	Other non cash items	(377)	-	(369)
	Share-based payments charge	(341)	515	1,313
	Operating cash flow before movements in working capital	16,244	21,358	41,010
	Decrease/(increase) in trade and other receivables	1,315	(7,592)	(12,316)
	Increase in inventories	(2,341)	(4,966)	(27,591)
	(Decrease)/increase in trade and other payables	(9,421)	2,491	12,988
	Operating cash flow before interest and tax	5,797	11,291	14,091
	Net interest (paid)/received	(636)	246	(330)
	Income tax paid	(915)	(2,722)	(3,380)
	Cash generated by operations	4,246	8,815	10,381
	Net foreign exchange movements	(878)	(1,266)	(1,918)
	Net cash inflow from operating activities	3,368	7,549	8,463
Cash flows from investing activities				
	Purchases of property, plant and equipment	(1,078)	(378)	(1,045)
	Purchases of intangible assets	(1,079)	-	(3,095)
	Capitalised R&D costs	(4,296)	(5,024)	(8,368)
	Proceeds from disposal of intangible assets	-	978	830
	Acquisition of subsidiary, net of cash acquired	(7,153)	-	(10,923)
	Net cash used in investing activities	(13,606)	(4,424)	(22,601)
Cash flows from financing activities				
	Proceeds from loans and borrowings	15,706	-	13,228
	Repayments of loans and borrowings	(2,000)	-	-
	Payment of right of use liabilities	(405)	(478)	(1,168)
	Equity dividends paid	(2,428)	(2,154)	(3,234)
	Net cash generated from/(used in) financing activities	10,873	(2,632)	8,826
	Net increase/(decrease) in cash and cash equivalents	635	493	(5,312)
	Cash and cash equivalents at beginning of the period	12,758	17,339	17,339
	Net foreign exchange movement	134	(19)	731
	Cash and cash equivalents at end of the period	13,527	17,813	12,758

Notes to the Condensed Consolidated Interim Financial Statements

1. Basis of preparation and significant accounting policies

5. The condensed consolidated interim financial statements have been prepared in accordance with the accounting policies set out in the annual financial statements.

Focusrite plc (the 'Company') is a company incorporated in the UK. The condensed consolidated interim financial statements ('interim financial statements') as at and for the six months ended 28 February 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.

Statement of compliance

The condensed set of financial statements are for the six months ended 28 February 2023 and are presented in Pounds ('GBP' thousands; £'000). This is the functional currency of the Group.

The condensed set of financial statements has been prepared in accordance with the recognition and measurement requirements of UK-adopted international accounting standards and the AIM rules.

The annual financial statements of the Group for the year ending 31 August 2023 will be prepared in accordance with UK-adopted international accounting standards. The condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the company's published consolidated financial statements for the year ended 31 August 2022 which were prepared in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006, with the exception of the presentation of intangible assets which has been updated to separately disclose technology, products and patents in development not yet subject to amortisation (see note 8).

AIM listed companies are not required to comply with IAS 34 'Interim Financial Reporting' and accordingly the Company has taken advantage of this exemption. The condensed financial statements do not include all the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 August 2022.

These interim financial statements were authorised for issue by the Company's Board of Directors on 24 April 2023.

The comparative figures for the financial year ended 31 August 2022 are the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Significant accounting policies

The condensed set of consolidated interim financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the company's published consolidated financial statements for the year ended 31 August 2022 which were prepared in accordance with UK-adopted International Accounting Standards (IAS) in conformity with the requirements of the Companies Act 2006, with the exception of the presentation of intangible assets which has been updated to separately disclose technology, products and patents in development not yet subject to amortisation (see note 8).

1.1 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and subsidiaries controlled by the Company drawn up to 28 February 2023.

1.2 Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases.

1.3 Going concern

The Board of Directors have 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 16 months from the date of approval of these interim financial statements ("the going concern period"). Accordingly, the interim 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 of £40.0 million which is due for renewal in December 2024. The availability of the revolving credit facility is subject to continued compliance with certain covenants.

The Directors have prepared projected cash flow forecasts for the period ending 16 months from the date of their approval of these financial statements. These forecasts include a severe but plausible downside scenarios, including the impact of a recession, loss of a major distributor and significant decline in a major product category.

The base case covers the period to August 2024 and includes demanding but achievable forecast growth. The forecast has been extracted from the Group's FY23 forecast and three-year plan. Key assumptions include:

- Future growth assumptions consistent with those recently achieved by the relevant divisions business and adjusted for the annualisation of recent acquisitions' results.
- Continued investments in research and development in all areas of the Group.
- No further acquisitions
- Dividends consistent with the Group's dividend policy.

Throughout the period the forecast cash flow information indicates that the Group will have sufficient cash reserves and comply with the leverage and interest cover covenants contained within the facility.

The Directors' view is that a severe yet plausible downside assumption is a combined scenario of a recession, together with loss of a distributor and a significant decline in a major product line. Compared to their base case forecasts this is estimated to be a revenue shortfall of 30% on the base case for a 12-month period commencing April 2023 with a 10% decline per month thereafter. This model assumes that purchases of inventory would, in time, reduce to reflect reduced sales, if they occurred, and the Group would respond to a revenue shortfall by taking reasonable steps to reduce overheads within its control. As an additional measure, the Directors could also cancel the dividend. Even at that level, 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 1.1x compared to the maximum of 2.5x. The Group's net debt position under this severe plausible downside scenario would still be expected to improve at the end of the 16-month period to August 2024.

Although revenue in this period has shown a decline, this is believed to be due to short term market factors, which are expected to reverse. The Group is still experiencing levels of consumer registrations and customer demand significantly higher than pre-pandemic and is expected to be cash generative in the second half. The Group's net debt position was approximately £15.3 million at 20 April 2022. Consequently, the Directors are confident that the Group will have sufficient funds to continue to meet their liabilities as they fall due for at least 16 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

1.4 Earnings per share

The Group presents basic and diluted earnings per share ('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.

1.5 Accounting estimates and judgements

In application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by the Directors in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those applied to the Group's financial statements for the year ended 31 August 2022.

1.6 Foreign currencies

The individual financial statements of each subsidiary are presented in the currency of the primary economic environment in which it operates (its functional currency). Sterling is the predominant functional currency of the Group 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 in profit or loss 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 cash flow hedges/financial instruments); and
- 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 the income statement.

1.7 Hedge accounting

The Group has adopted hedge accounting for qualifying transactions. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities of firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

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 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.

1.8 Alternative Performance Measures (APMs) and Adjusting items

The Group has disclosed certain alternative performance measures ('APMs') within these interim results. 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, provides a helpful view of the ongoing trading performance of the Group.

Adjusted results will therefore exclude certain significant costs such as amortisation on acquired intangibles, together with some non-recurring costs and benefits and so should not be regarded as a complete picture of the Group's financial performance.

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, sale of trademark (only in HY22) and restructuring costs, together with amortisation of acquired intangible assets.

The following APMs have been used in these financial results:

- Organic constant currency growth - this is calculated by comparing current period revenue to 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 - comprised of cash and cash equivalents, overdrafts and amounts drawn against the RCF including the costs of arranging the RCF. See reconciliation below

During the period, the directors have reconsidered the presentation of the deferred tax credit arising on the amortisation of acquired intangible assets. This has previously not been regarded as an adjusting item. In order to be consistent with the treatment of the amortisation of the relevant assets, we now consider 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, comparative amounts for the affected disclosures have been restated. The impact of this change was to increase the tax credit on adjusting items by £0.3 million in the six months to 28 February 2022 and by £1.2 million in the year to 31 August 2022. Adjusted basic EPS and adjusted diluted EPS reduced by 0.9p for the six months to February 2022 and by 2.0p for the year to 31 August 2022.

for the year to 31 August 2022.

Reconciliation of Alternative Performance Measures to Statutory Reported Measures

	Six months to 28 February 2023			Six months to 28 February 2022		
	Adjusted EBITDA £'000	Adjusted Operating Profit £'000	Adjusted Diluted EPS £'000	Adjusted EBITDA £'000	Adjusted Operating Profit £'000	Restated Adjusted Diluted EPS ^[1] £'000
Reported Operating Profit	11,461	11,461		16,283	16,283	
Reported Profit after tax			8,449			13,453
Add back (deduct):						
Underlying depreciation and amortisation	3,858	-	-	3,146	-	-
Amortisation on acquired intangibles	1,504	1,504	1,504	2,236	2,236	2,236
Acquisition costs	328	328	328	300	300	300
Gain on sale of trademark	-	-	-	(830)	(830)	(830)
Earnout in relation to acquisition	523	523	523	1,087	1,087	1,087
Restructuring	379	379	379	-	-	-
Tax on adjusting items	-	-	(565)	-	-	(831)
Adjusted	18,053	14,195	10,618	22,222	19,076	15,415
Weighted average number of total ordinary shares including dilutive impact			58,936			58,910
Adjusted diluted EPS (p)			18.0			26.2

**Year to
31 August 2022**

	Adjusted EBITDA £'000	Adjusted Operating Profit £'000	Restated Adjusted Diluted EPS ¹ £'000
Reported Operating Profit	28,661	28,661	-
Reported Profit after tax			24,776
Add back (deduct):			
Underlying depreciation and amortisation	6,991	-	-
Amortisation on acquired intangibles	5,116	5,116	5,116
Acquisition costs	565	565	565
Gain on sale of trademark	(830)	(830)	(830)
Earnout in relation to acquisition	1,160	1,160	1,160
Tax on adjusting items	-	-	(1,376)
Adjusted	41,663	34,672	29,411
Weighted average number of total ordinary shares including dilutive impact			58,917
Adjusted diluted EPS (p)			49.9

	Six months to 28 February 2023		Six months to 28 February 2022		Year to 31 August 2022	
	Free cash flow £'000	Adjusted free cash flow £'000	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	635	635	493	493	(5,312)	(5,312)
Add back: dividends paid	2,428	2,428	2,154	2,154	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	(13,706)	(13,706)	-	-	(13,228)	(13,228)
Add back: adjusting items	-	1,230	-	557	-	895
Free cashflow/Adjusted Free cashflow	(3,490)	(2,260)	2,647	3,204	(4,383)	(3,488)

	28 February 2023 Net (debt)/cash	28 February 2022 Net (debt)/cash	31 August 2022 Net (debt)/cash
Definition of net debt			
Cash and cash equivalents	13,527	17,813	12,758
Bank loan	(26,897)	-	(13,228)
RCF arrangement fee	137	211	174
Net debt	(13,233)	18,024	(296)

[1] Restated to include the deferred tax credit arising on the amortisation of acquired intangibles, which was not previously included. See note 1.8 to the interim financial statements.

2. Revenue

An analysis of the Group's revenue is as follows:

	Six months to 28 February 2023				Six months to 28 February 2022			
	North America £'000	EMEA £'000	Rest of World £'000	Total £'000	North America £'000	EMEA £'000	Rest of World £'000	Total £'000
Focusrite	20,669	14,309	5,106	40,084	26,852	19,046	9,016	54,914
Novation	2,838	4,060	1,343	8,241	4,525	4,280	1,706	10,511
ADAM Audio	3,194	6,087	880	10,161	2,381	4,702	1,337	8,420
Sequential	4,295	3,638	746	8,679	2,964	2,999	626	6,589
Sonnox	116	130	60	306	-	-	-	-
Content Creation	31,112	28,224	8,135	67,471	36,722	31,027	12,685	80,434
Audio Reproduction - Martin Audio	5,197	8,420	5,155	18,772	3,041	4,397	5,021	12,459
Total	36,309	36,644	13,290	86,243	39,763	35,424	17,706	92,893

	Year to 31 August 2022			
	North America £'000	EMEA £'000	Rest of World £'000	Total £'000
Focusrite	47,558	30,936	18,692	97,186
Novation	8,603	8,088	3,892	20,583
ADAM Audio	3,964	9,036	4,797	17,797
Sequential	6,300	7,874	2,075	16,249
Content Creation	66,425	55,934	29,456	151,815
Martin Audio	8,084	14,176	9,658	31,918
Total	74,509	70,110	39,114	183,733

3. Operating segments

Products and services from which reportable segments derive their revenue

Information reported to the Group's Chief Executive Officer (who has been determined to be the Group's Chief Operating Decision Maker) for the purposes of resource allocation and assessment of segment performance is focused on the main product groups which the Group sells. While the results of Novation and Ampify are reported separately to the Board, they meet the aggregation criteria set out in IFRS 8 'Operating Segments'. 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 and Ampify branded products
ADAM Audio	-	Sale of ADAM Audio products
Martin Audio	-	Sale of Martin Audio, Optimal Audio and Linea Research (acquired 10 March 2022) products.
Sequential	-	Sale of Sequential products.
Sonnox	-	Sale of Sonnox software plug ins (acquired 19 December 2022)

The revenue and profit generated by each of the Group's operating segments are summarised as follows:

	Six months to 28 February 2023 £'000	Six months to 28 February 2022 £'000	Year to 31 August 2022 £'000
Revenue from external customers			
Focusrite	40,084	54,914	97,186
Novation	8,241	10,511	20,583
ADAM Audio	10,161	8,420	17,797
Sequential	8,679	6,589	16,249

Sequential	8,872	8,303	10,470
Sonnox	306	-	-
Martin Audio	18,772	12,459	31,918
Total revenue from external customers	86,243	92,893	183,733
Segment profit			
Focusrite	19,148	25,944	45,108
Novation	4,485	4,464	8,132
ADAM Audio	4,738	4,081	8,941
Sequential	3,779	2,779	6,819
Sonnox	290	-	-
Martin Audio	8,184	5,995	14,280
Total segment profit	40,624	43,263	83,280
Central sales and administrative expenses	(27,933)	(26,423)	(53,724)
Other income	-	830	830
Adjusting items	(1,230)	(1,387)	(1,725)
Operating profit	11,461	16,283	28,661
Finance income	712	351	2,286
Finance costs	(1,290)	(106)	(398)
Profit before tax	10,883	16,528	30,549
Tax	(2,434)	(3,075)	(5,773)
Profit after tax	8,449	13,453	24,776

Segment profit represents the profit earned by each segment without allocation of the share of central administration costs, other income, finance income and finance costs, and income tax expense. This is the measure reported to the Group's Chief Executive Officer 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 a credit relating to the share option scheme of £341,000 for the six-month period to 28 February 2023 (six months to 28 February 2022: charge of £515,000; year to 31 August 2022: charge of £1,313,000).

Segment net assets and other segment information

Management does not make use of segmental data relating to net assets and other balance sheet information for the purposes of monitoring segment performance and allocating resources between segments. Accordingly, other than the analysis of the Group's non-current assets by region shown below, this information is not available for disclosure in the condensed consolidated financial information.

The Group's non-current assets, analysed by region, were as follows:

	28 February 2023	28 February 2022	31 August 2022
	£'000	£'000	£'000
Non-current assets			
North America	9,423	16,033	21,311
Europe, Middle East and Africa	85,615	49,339	66,189
Rest of World	113	788	-
Total non-current assets	95,151	66,160	87,500
UK	69,560	54,025	63,543

4. Adjusting items

The following adjusting items have been charged/(credited) to the income statement in the period

	Six months to 28 February 2023	Six months to 28 February 2022	Year to 31 August 2022
	£'000	Restated ¹ £'000	Restated ¹ £'000
Adjusting income			
Gain on sale of trademark	-	(830)	(830)
Adjusting costs			
Acquisition and due diligence costs	230	200	500

Acquisition and due diligence costs	540	300	565
Earnout accrual in relation to acquisitions	523	1,087	1,160
Restructuring	379	-	-
Total adjusting items for adjusted EBITDA	1,230	557	895
Amortisation of acquired intangible assets	1,504	2,236	5,116
Total adjusting items for adjusted operating profit	2,734	2,793	6,011
Tax on adjusting items ¹	(565)	(831)	(1,376)
Total adjusting items for adjusted profit after tax	2,169	1,962	4,635

¹ Restated to include the deferred tax credit arising on the amortisation of acquired intangibles, which was not previously included. See note 1.8 to the interim financial statements.

Acquisition and due diligence costs in the six months to 28 February 2023 related to fees accrued for due diligence work associated with the acquisition of Sonnox Limited. The earnout accrual relates to that part of the US\$4 million consideration that was classed as employee remuneration rather than contingent consideration as part of the Sequential acquisition in April 2021 and an amount due relating to the acquisition of Linea Research of £0.3 million. The Sequential earn out has now completed and was paid in the half year. The earn out relating to Linea Research will complete in May 2023.

5. Taxation

The tax charge for the six months to 28 February 2023 is based on the estimated tax rate for the full year in each jurisdiction.

6. Dividends

The following equity dividends have been declared:

	Six months to 28 February 2023	Six months to 28 February 2022	Year to 31 August 2022
Dividend per qualifying ordinary share	2.1p	1.85p	6.0p

During the period, the Company paid a final dividend in respect of the year ended 31 August 2022 of 4.15 pence per share. The Board has approved an interim dividend of 2.1 pence per ordinary share (HY22: 1.85 pence).

This will be payable on 10 June 2023 to ordinary shareholders on the register on 13 May 2022. The ex-dividend date will be 12 May 2023.

7. Earnings per share

Reported EPS

	Six months to 28 February 2023	Six months to 28 February 2022 ¹	Year to 31 August 2022
The calculation of the basic and diluted EPS is based on the following data:		Restated ¹	Restated ¹
Earnings	£'000	£'000	£'000
Earnings for the purposes of basic and diluted EPS being net profit for the period	8,449	13,453	24,776
Adjusting items (see note 4)	2,734	2,793	6,011
Tax on adjusting items ¹	(565)	(831)	(1,376)
Total adjusted profit for adjusted EPS calculation	10,618	15,415	29,411

	Six months to 28 February 2023	Six months to 28 February 2022	Year to 31 August 2022
Number of shares			
Weighted average number of ordinary shares for the purposes of basic EPS calculation	58,494,265	58,215,504	58,294,306
Effect of dilutive potential ordinary shares:			
Employee and Director share option plans	441,359	694,238	623,138

Weighted average number of ordinary shares for the purposes of diluted EPS calculation	58,935,624	58,909,742	58,917,444
--	------------	------------	------------

EPS	Pence	Pence	Pence
Basic EPS	14.4	23.1	42.5
Diluted EPS	14.3	22.8	42.1
Adjusted basic EPS ¹	18.2	26.5	50.5
Adjusted diluted EPS ¹	18.0	26.2	49.9

¹ Restated in HY22 and FY22 to include the deferred tax credit arising on the amortisation of acquired intangibles, which was not previously included. See note 1.8 to the interim financial statements.

At 28 February 2023, the total number of ordinary shares issued and fully paid was 59,211,639. This included shares held by the Employee Benefit Trust ('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 less the weighted average number of shares held by the EBT. 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.

8. Other intangible assets

	Intellectual property, Licences and Trademarks	Internally generated technology and patents costs	Acquired technology and patents costs	Technology and patents under Development	Computer software	Brands	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'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
Additions - products developed during the period	406	2,387	-	5,464	-	-	8,257

developed during the period							
Additions through business combination	-	-	4,050	1,600	-	850	6,500
Foreign exchange	-	-	1,032	-	-	913	1,945
Transfer	(21)	3,908	1,402	(5,289)	-	-	-
Disposals	(1)	-	-	-	(245)	-	(246)
At 1 September 2022	3,726	27,708	30,178	8,310	1,384	26,318	97,624
Additions - acquired separately	780	22	-	-	277	-	1,079
Additions - products developed during the period	-	1,140	-	3,156	-	-	4,296
Additions through business combination	-	-	4,700	450	3	400	5,553
Foreign exchange	(1)	(25)	(188)	(31)	-	(334)	(579)
Transfer	-	3,492	-	(3,352)	(140)	-	-
Disposals	(28)	-	-	-	(1)	-	(29)
At 28 February 2023	4,477	32,337	34,690	8,533	1,523	26,384	107,944

	Intellectual property, Licences and Trademarks	Internally generated technology and patents costs	Acquired technology and patents costs	Technology and patents under Development	Computer software	Brands	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
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
Foreign exchange	-	17	39	-	-	23	79
Eliminated on disposal	-	-	-	-	(141)	-	(141)
At 1 September 2022	1,683	20,562	7,377	970	1,159	3,909	35,660
Charge for the period	221	2,286	1,695	-	224	933	5,359
Foreign exchange	(2)	9	(10)	-	-	(11)	(14)
Transfer	-	239	-	-	(239)	-	-
Reversal of amortisation	-	-	-	(970)	-	-	(970)
At 28 February 2023	1,902	23,096	9,062	-	1,144	4,831	40,035
Carrying amount							
At 28 February 2023	2,575	9,241	25,628	8,533	379	21,553	67,909
At 31 August 2022	2,043	7,146	22,801	7,340	225	22,409	61,964

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 amortisation provided in error totals £1.0 million. 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 has been represented to separate those assets which are currently in development from those which are in use.

9. Financial instruments

The fair value of the Group's derivative financial instruments is calculated using the 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 an option pricing model 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 contract.

IFRS 13 'Fair Value Measurements' requires the Group's derivative financial instruments to be disclosed at fair value and categorised in three levels according to the inputs used in the calculation of their fair value.

Financial instruments carried at fair value should be measured with reference to the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or

liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The financial instruments held by the Group that are measured at fair value all related to financial assets/(liabilities) measured using a Level 2 valuation method.

The fair value of financial assets and liabilities held by the Group are:

	28 February 2023 £'000	28 February 2022 £'000	31 August 2022 £'000
Financial assets			
<i>Fair value</i>			
Cash and cash equivalents	13,527	17,813	12,758
Trade and other receivables	23,130	18,641	26,887
<i>Designated cash flow hedge relationships</i>			
Derivative financial assets designated and effective as cash flow hedging instruments	-	572	-
	36,657	37,026	39,645
Financial liabilities			
<i>Fair value</i>			
Trade and other payables	12,246	19,381	22,809
Bank loan and arrangement fee	26,760	(211)	13,054
Amounts payable in relation to staged acquisition payments	3,486	-	3,573
<i>Designated cash flow hedge relationships</i>			
Derivative financial liabilities designated and effective as cash flow hedging instruments	99	-	293
	42,591	19,170	39,729

10. 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 drawdown of £9.2 million on the existing revolving credit facility 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 28 February 2023, Sonnox contributed revenue of £0.3 million and a profit before tax of £0.1 million to the Group. If the acquisition had occurred on 1 September 2022, management estimates that Sonnox's revenue would have been £1.2 million and profit before tax for the period would have been £0.6 million.

Acquisition-related costs

The Group incurred acquisition-related costs of £287,000 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 average expected corporate tax rates over the life of the assets.

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 "MEEM") The key assumption used is the forecast revenues attributable to the existing asset.
Technology and patents in development	Replacement cost approach The key assumption is the estimated completion percentage
Brand	Income approach (relief from royalty method) The key assumption used is the forecast revenues attributable to the existing asset.

Fair values measured on a provisional basis

Sonnox was acquired two months prior to the end of this reporting period. If new information is obtained within one year of the date of acquisition about the facts and circumstances that existed at the date of acquisition that identifies adjustments to the above amounts or any additional provisions that existed at the date of acquisition, then the accounting for the acquisition will be revised. Such adjustments may relate to our understanding of the growth assumptions made at the time of the acquisition.

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 and therefore a proportion of the goodwill and technology and patents in development recognised in this transaction will be attributed to the Focusrite Cash Generating Unit (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.

Asset	Cost	Valuation impact	
		10% sales increase	10% sales decrease
Developed technology	4,700	482	(482)
Brand	400	43	(43)
Total	5,100	525	(525)

In 2022 the Group purchased Linea Research for £12,277,000, resulting in acquired intangible assets additions of £6,500,000 and goodwill of £3,387,000 arising due to this business combination.

Independent Review Report to Focusrite plc

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly report for the six months ended 28 February 2023 which comprises the Condensed Consolidated Income Statement, Condensed Consolidated Statement of Other Comprehensive Income, Condensed Consolidated Statement of Financial Position, Condensed Consolidated Statements of Changes in Equity, Consolidated Statement of Cash Flow and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly report for the six months ended 28 February 2023 is not prepared, in all material respects, in accordance with the recognition and measurement requirements of UK-adopted international accounting standards and the AIM Rules.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* ("ISRE (UK) 2410") issued for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention that causes us to believe that the directors have inappropriately adopted the going concern basis of accounting, or that the directors have identified material uncertainties relating to going concern that have not been appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the group to cease to continue as a going concern, and the above conclusions are not a guarantee that the group will continue in operation.

Directors' responsibilities

The half-yearly report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly report in accordance with the AIM Rules.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with UK-adopted international accounting standards.

The directors are responsible for preparing the condensed set of financial statements included in the half-yearly report in accordance with the recognition and measurement requirements of UK-adopted international accounting standards.

In preparing the condensed set of financial statements, the directors are responsible for assessing the group'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 the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly report based on our review. Our conclusion, including our conclusions relating to going concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion section of this report.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions

we have reached.

James Tracey
for and on behalf of KPMG LLP
Chartered Accountants

One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
24 April 2023



This information is provided by RNS, the news service of the London Stock Exchange. RNS is approved by the Financial Conduct Authority to act as a Primary Information Provider in the United Kingdom. Terms and conditions relating to the use and distribution of this information may apply. For further information, please contact ms@seg.com or visit www.ms.com.

RNS may use your IP address to confirm compliance with the terms and conditions, to analyse how you engage with the information contained in this communication, and to share such analysis on an anonymised basis with others as part of our commercial services. For further information about how RNS and the London Stock Exchange use the personal data you provide us, please see our [Privacy Policy](#).

END

IR IIMBTMTTTTJJ