

Focusrite

Music therapy

Growth in revenue and cash is strong after four months of trading. Focusrite continues to build on its leadership positions in international markets, and to benefit from its c 85% non-UK market exposure. Further growth in cash is also encouraging as it suggests good profit conversion despite expected cost increases. If these independent growth trends continue to the half-year, we would see upside risk to our forecasts.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	EV/EBITDA (x)	Yield (%)
08/16	54.3	7.7	11.8	2.0	28.9	18.8	0.6
08/17	66.1	9.5	14.8	2.7	23.0	14.0	0.8
08/18e	72.7	10.0	15.3	3.0	22.2	13.3	0.9
08/19e	78.6	10.6	15.9	3.3	21.4	12.4	1.0

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

Growth continues strongly

In November management reported that revenue and cash had grown “further” since the August year end, with “strong” market acceptance of the expanding portfolio. Now, the growth itself is described as “strong”, and it has moreover continued through November and December. The word ‘strong’ (which was also used about FY17’s constant currency growth of 13%) indicates a firming position, as well as the fact that the four months to December are a more significant period.

Building on international market position

Focusrite derives c 85% of revenue from non-UK sources, positioning it well in structurally sound international markets such as the US and Far East. We understand that trends seen in FY17 have broadly continued. Those were, firstly, growth in all geographies, but led by the US and Rest of World (mainly Asia), and secondly growth in both divisions, led by Novation. Focusrite continues to build its leading international positions in its specialised markets of audio interfaces and sound generation.

We retain our forecast with confidence

Revenue growth comparable with FY17’s constant currency growth of 13.5% would be above our FY18 revenue forecast of 10% (constant currency: 8%). We already forecast cost increases on the two new brand groups Focusrite Pro and Ampify (see our [Outlook note](#)), as well as in e-commerce. However, strong growth in cash also suggests good profit conversion despite higher costs. We therefore retain added confidence in our forecast, with upside risk if these trends continue to the half year.

Valuation: Does not reflect forecast upside

As we are not changing our forecast, we retain our DCF valuation of 363p/share for now. This would put the shares on an FY18e P/E of 23.7x and EV/EBITDA of 14.2x. We include in our valuation year-end cash of £14.2m reported at the August year end, although cash is also reported as having grown strongly. The use of that cash could also be supportive of the valuation.

January trading statement

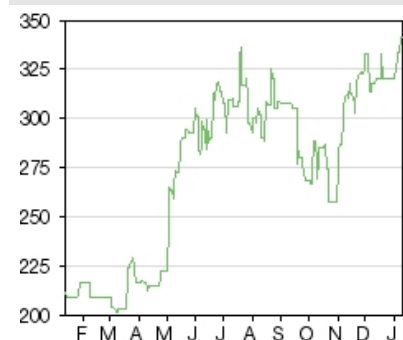
Consumer electronics

10 January 2018

Price **341p**
Market cap **£198m**

Net cash (£m) at August 2017	14.2
Shares in issue	58.1m
Free float	58%
Code	TUNE
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	7.4	23.3	63.6
Rel (local)	2.7	19.6	51.2
52-week high/low		341.0p	201.5p

Business description

Focusrite is a global music and audio products group that develops and markets hardware and software products, used by both audio professionals and amateurs to realise the high-quality production of recorded and live sound.

Next events

Interim results	April 2018
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Exhibit 1: Financial summary

	£'000s	2015	2016	2017	2018e	2019e	2020e
31-August		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT							
Revenue		48,029	54,301	66,055	72,715	78,564	84,850
Cost of Sales		(29,381)	(33,439)	(39,704)	(42,460)	(45,876)	(49,546)
Gross Profit		18,648	20,862	26,351	30,254	32,688	35,303
EBITDA		9,302	10,249	13,109	13,834	14,790	15,634
Operating profit (before amort. and except).		7,024	7,677	9,470	9,963	10,515	11,037
Amortisation of acquired intangibles		0	0	0	0	0	0
Exceptionals		(704)	(537)	0	0	0	0
Share-based payments		0	0	0	0	0	0
Reported operating profit		6,320	7,140	9,470	9,963	10,515	11,037
Net Interest		164	(14)	42	40	45	50
Joint ventures & associates (post tax)		0	0	0	0	0	0
Exceptionals		0	0	0	0	0	0
Profit Before Tax (norm)		7,188	7,663	9,512	10,003	10,560	11,087
Profit Before Tax (reported)		6,484	7,126	9,512	10,003	10,560	11,087
Reported tax		(1,022)	(870)	(959)	(1,200)	(1,426)	(1,663)
Profit After Tax (norm)		6,166	6,793	8,553	8,803	9,135	9,424
Profit After Tax (reported)		5,462	6,256	8,553	8,803	9,135	9,424
Minority interests		0	0	0	0	0	0
Discontinued operations		0	0	0	0	0	0
Net income (normalised)		6,166	6,900	8,553	8,803	9,135	9,424
Net income (reported)		5,462	6,256	8,553	8,803	9,135	9,424
Basic average number of shares outstanding (m)		52.4	53.2	55.4	56.0	56.0	56.0
EPS - basic normalised (p)		11.8	13.0	15.4	15.7	16.3	16.8
EPS - normalised (p)		10.5	11.8	14.8	15.3	15.9	16.4
EPS - basic reported (p)		10.4	11.8	15.4	15.7	16.3	16.8
Dividend per share (p)		1.80	1.95	2.70	2.95	3.30	3.65
Revenue growth (%)		17.2	13.1	21.6	10.1	8.0	8.0
Gross Margin (%)		38.8	38.4	39.9	41.6	41.6	41.6
EBITDA Margin (%)		19.4	18.9	19.8	19.0	18.8	18.4
Normalised Operating Margin		14.6	14.1	14.3	13.7	13.4	13.0
BALANCE SHEET							
Fixed Assets		5,264	6,367	6,332	7,392	8,416	9,544
Intangible Assets		3,941	4,792	4,963	6,159	7,367	8,651
Tangible Assets		1,323	1,575	1,369	1,233	1,050	893
Investments & other		0	0	0	0	0	0
Current Assets		22,766	28,191	36,126	41,974	48,775	55,221
Stocks		8,633	11,361	9,000	9,888	12,569	13,574
Debtors		7,737	11,224	12,952	14,457	15,620	17,335
Cash & cash equivalents		6,173	5,606	14,174	17,629	20,586	24,312
Other		223	0	0	0	0	0
Current Liabilities		(8,809)	(9,256)	(8,663)	(9,116)	(9,899)	(10,466)
Creditors		(8,406)	(8,612)	(8,204)	(8,657)	(9,354)	(9,830)
Tax and social security		(403)	(644)	(459)	(459)	(545)	(636)
Short term borrowings		0	0	0	0	0	0
Other		0	0	0	0	0	0
Long Term Liabilities		(743)	(282)	(245)	(309)	(375)	(444)
Long term borrowings		0	0	0	0	0	0
Other long term liabilities		(743)	(282)	(245)	(309)	(375)	(444)
Net Assets		18,478	25,020	33,550	39,940	46,918	53,855
Minority interests		0	0	0	0	0	0
Shareholders' equity		18,478	25,020	33,550	39,940	46,918	53,855
CASH FLOW							
Op Cash Flow before WC and tax		9,302	10,249	13,109	13,834	14,790	15,634
Working capital		(1,689)	(6,009)	407	(2,606)	(3,147)	(2,243)
Exceptional & other		(591)	(417)	137	(0)	(0)	(0)
Tax		(838)	(165)	(633)	(1,200)	(1,426)	(1,663)
Net operating cash flow		6,184	3,658	13,020	10,028	10,217	11,727
Capex		(3,559)	(3,675)	(3,614)	(4,960)	(5,423)	(5,934)
Acquisitions/disposals		0	0	0	0	0	0
Net interest		6	(111)	(42)	40	45	50
Equity financing		0	172	258	0	0	0
Dividends		(314)	(976)	(1,138)	(1,653)	(1,882)	(2,118)
Other		53	365	84	0	0	0
Net Cash Flow		2,370	(567)	8,568	3,455	2,957	3,725
Opening net debt/(cash)		(3,803)	(6,173)	(5,606)	(14,174)	(17,629)	(20,586)
FX		0	0	0	0	0	0
Other non-cash movements		0	0	0	0	0	0
Closing net debt/(cash)		(6,173)	(5,606)	(14,174)	(17,629)	(20,586)	(24,312)

Source: Company accounts, Edison Investment Research

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