# Focusrite Audio Engineering Limited

Annual report and financial statements

31 August 2022



Company registered number: 02357989

# Contents

## Strategic report

The Directors present their annual report and the audited financial statements for the year ended 31 August 2022.

### Introduction

I am pleased to report our results for the financial year ended 31 August 2022. The Company has performed admirably during a period of unprecedented global challenges. FY22 saw some return to normality as the COVID-19 pandemic subsided. Demand for content creation solutions continued to be steady over the year, compared to record high volumes in 2021 during the peak of worldwide lockdowns. Most pleasingly demand remains materially higher than at pre COVID-19 levels.

FY22 was not without its challenges, particularly in component supply issues; high freight costs; war in Europe; heightened signs of recession and an increased cost of living world-wide. Despite this the Company has fared well throughout the period, by leveraging the size and scale of our organisation to deftly negotiate component and freight costs, and by raising prices across most brands to partially mitigate margin impact.

Our employee base consists of an incredible group of passionate individuals, many accomplished musicians, DJs, audio engineers, live sound specialists and podcasters in their own right. The Company is fortunate to have so many employees who use our solutions in real world applications, bringing their feedback and experiences back into their work to continually improve our offerings.

Creating a great place to work is one of the core pillars for our growth strategy. The Company recruits and retains the top talent in our industry. We continue to invest in our employees with tactical training, an increased HR footprint, regular reviews, career advancement opportunities across the brands, biannual surveys, and consistent communication. From our various employee surveys, we know our employees highly value Diversity and Inclusion (D&I) awareness, and champion green initiatives and charitable efforts inside our industry. The Company has made good strides in advancing all these causes, positioning itself to be an industry leader on these fronts.

### Our operations

The Company's portfolio of products is sold in approximately 240 territories across the Globe. We are acutely aware that the landscape in which customers want to purchase our solutions is ever evolving, which in turn presents us with new opportunities. Hence, we continue to refine our routes to market; utilising a combination of retailers and system integrators (online as well as bricks and mortar shops), regional distributors, and direct to end user via our own e-commerce platform and in-app sales.

Last year we sold over 1.3 million physical products and had over 1.3 million downloads of our various software titles. We launched 13 new products along with numerous updates to existing ranges. Our manufacturing approach is multifaceted, driven by the specific needs of each individual brand, with a mixture of manufacturing on site and mass production in China and Malaysia.

### Our market

Our products and solutions service a wide spectrum of customers, all of whom are seeking high-quality audio results, including the absolute beginner, hobbyist and both the aspiring and seasoned professional. The majority of the Focusrite, Focusrite Pro, Novation, Ampify and third party distributed products (e.g., ADAM Audio and Sequential) align with these customer personas.

Each of the brands continue to focus on innovation, ensuring a robust roadmap of refreshes for current products whilst also introducing completely new solutions. The world of audio creation is constantly evolving, and with that we spend considerable effort and resources on our Research & Development (R&D) efforts to ensure we are at the forefront of technology, new standards and workflows for our customers.

The Company is committed to learning as much as we can from our customers, actively collecting data during their on-boarding and user journey as they use our solutions. Additionally, we collate our own data with industry market sources to ensure that we are always on top of our customers' needs and buying behaviours. Greater detail on our markets and customer types is provided elsewhere in this report.

### Operating review

Despite the numerous macroeconomic and global supply chain issues experienced this year, the Company made considerable progress in restocking our distribution channels. We also progressed a number of initiatives across routes to market, and ESG, and invested in our employees and IT infrastructure across the Company. This investment, along with continued heightened freight and component costs in the year, resulted in an adjusted EBITDA[1] below the record profits achieved in FY21, but still an admirable performance, given the factors cited above and well above FY20 and the last pre pandemic year of FY19.

Revenue for the Company was £119.4m, finishing the year 5% down over the previous year, but this was against a very strong comparable in the previous year driven by the lockdown boost.

**Current economic challenges**

As the pandemic began to subside, a number of challenges related to COVID-19 remained throughout the year. Additionally, as the year progressed new global macro factors have also added complexity and concern across our industry, like many others. As with previous years, the Company has met these challenges head on, working tirelessly to ensure a steady and reliable flow of products to our channel; protecting the well-being of our employees, and mitigating the impact of cost inflation on gross margin.

During this past year, demand for silicon and wafers has continued to increase, causing lead times and pricing to remain at unprecedented levels. The Company has had to face leads times as long as 36 months as well as spot buys on the open market at exaggerated prices. We have benefited from placing early orders during the onset of COVID-19, resulting in most of the major components flowing in on a regular basis. However, we have encountered numerous occasions where shipments have not arrived on time, requiring us to look at even more elevated spot buys or the potential of stock outs in our channel. We continue to monitor and mitigate this issue rigorously, leveraging the size and scale of the Company's overall component needs to negotiate priority and better pricing.

Likewise, freight and logistics costs have also continued throughout last year at unprecedented high pricing levels, although we have seen reductions since year end. Again, the Company has leveraged our scale to address this issue, and in addition, has negotiated with a number of major resellers to collect up their orders directly from China and thus take on the freight and duty cost themselves.

Beyond working on the above issues as a Company as opposed to individual brands, we also put through price increases throughout last year to help offset some of the gross margin impact. These price increases were calculated by looking at mid to long term forecasts on costs, price elasticity models for every category, and discount structures for our channel.

The Company has kept a watchful eye on rising global economic issues around inflation, cost of living, and the protracted war in Ukraine. Over the past few years, the Company has invested more into our IT infrastructure enabling us to monitor the current and projected future performance of our businesses better and thereby improving the speed and quality of our decision-making.

**Segmental Review**

*Focusrite:*

Our Focusrite branded family of audio interfaces, Scarlett and Clarett, offer customers high quality solutions to capture and process audio. Across this past year, while demand levels were not as high as during the pandemic periods, demand for our audio interfaces has remained at steady levels, and materially up over pre pandemic volumes. Additionally, we have expanded our suite of FAST plug-ins, offering both perpetual licenses as well as rent to own schemes.

This past year, we introduced a new Focusrite branded suite of products focused on Podcasting. Podcasting is now a well-established media form in its own right and with a massive following. There is a growing number of new podcasts every month, and in turn growing advertising revenue. To serve these customer's unique needs, we launched the Vocaster series in June 2022. These solutions have received rave reviews in both mainstream magazines such as the New York Times, Macworld and Forbes, as well as with key influencers and sites dedicated to Podcasting.

[1] Comprising earnings adjusted for interest, taxation, depreciation, amortisation and non-underlying items (see page 8)

*Focusrite Pro*:

The Focusrite Pro suite of solutions provides professional audio engineers and facilities with the best quality audio in scalable systems that fit the need for any professional workflow. This year's performance continued to be impacted by component shortages leading to a decline in sales over the prior year. We expect supply to remain constrained in this area over the coming year.

*Novation*:

Electronic music, and its many genres, continues to grow and to democratise the art of music creation. The Novation brand encompasses a suite of products and solutions focused on the creation and playback of electronic music.

The product range includes industry-recognised premium keyboard and pad controllers, grooveboxes and synthesisers and is aimed at a wide swathe of end users, from the absolute beginner just exploring how to make beats, all the way through to the professional DJ, producer and musician. This past year, we introduced three new products to our controller keyboard line: the Launchkey88, the FL Studio Mini and FLStudio 37. These new offerings offer more choices to musicians looking for tight integration with the world's most popular music creation software.

*Ampify*:

Ampify expands the Company's electronic music offerings into free to download iOS and cross-platform desktop solutions that allow anyone to experiment with and create high-quality soundtracks. Our iOS music creation app, Launchpad OS, is one of the most popular electronic music apps available. Over the past year, both offerings had 1.28 million downloads, with roughly 192,000 in-App purchases. Last year, we began monthly and annual subscription services for both platforms. This year the number of subscribers grew by 44% and the monthly recurring revenue grew by 51%.

*ADAM Audio*:

The Company began distributing ADAM Audio products in the UK in FY21. The ADAM Audio brand of professional studio monitors and headphones are utilised by every customer persona in the audio creation customer sectors described earlier. ADAM Audio's reputation for best-of-breed monitoring solutions across all their offerings and price points continues to grow.

*Sequential:*

In FY22, the Company began distributing Sequential products in the UK. Sequential is a premium synthesiser maker and has been a leading force in the resurgent popularity of analogue synthesisers over the last decade. They are a mainstay of performing and recording artists and can be seen and heard on countless stages and recordings.

The Sequential portfolio of high-end analogue synthesisers perfectly complements the Company's existing Novation brand of synthesisers, greatly expanding the number of solutions we have for professional musicians looking for new ways to enhance their sonic palette. Sequential's product offerings are deeply rooted in the history of synthesisers, with a number of modern-day versions of classic instruments known and coveted by professional musicians.

*Distribution:*

The Company ceased to distribute third-party products in FY21. The Distribution segment now represents the sale of products on behalf of other members of the Focusrite Group, of which FAEL is a subsidiary.

**Routes to market**

The Company utilises a combination of brick-and-mortar shops, e-tail focused resellers, distributors and our own direct to end user e-stores. Our audio reproduction channel includes rental companies, system integrators, distributors, and sales directly to end customers. We continue to invest in people and infrastructure in local regions, allowing us to service our resellers and end users locally and in their own language. Most regions have their own demand generation teams, working with local artists and the community to ensure our products are represented and resonate with customers.

**Geographic overview**

The Company reports regional performance in three groups: North America, EMEA and Rest of World (comprising APAC and LATAM). Top line revenue numbers for North America and EMEA declined year over year, with ROW growing at 27.3%.

***North America***

The US market, which accounts for approximately 48% of total Company revenue, declined by 2.7% year-on-year, mainly due to the strong comparative year set in FY21. Our North American operations include sales and marketing, customer support, finance, and remote employees across product and engineering. Last year's creation of one unified team in the US has settled in well and allowed the company to continue to leverage the talent and scale of the individual brands' presence in North America to provide lift for efforts in the region. This will include utilising the skills and relationships of each sales member, and the scale of our tech support teams to provide more coverage, as well as more unified marketing efforts and scalable back-office functions.

***EMEA***

Europe, Middle East and Africa (EMEA) remains our second largest region, comprising 34% of the Company's revenue, The Company began distributing Sequential, a wholly owned subsidiary of Focusrite plc, products in the UK in FY22.

As part of the Company's Route to Market evolution, the Company moved to a centralised sales and marketing team with other group companies focused on the region. We believe this structure will allow us to scale our demand generation efforts and work closer with our local resellers and distributors to ensure our brands are front of mind with their customers.

The Company coming off very high pandemic level comparisons and facing headwinds caused by the conflict in Ukraine and concerns about recession, still managed to turn in a good performance, finishing 18.2% down when compared to the prior year.

***ROW***

The rest of the world (ROW) region comprises Asia Pacific (APAC) and Latin America (LATAM). Overall, ROW represents approximately 18% of the Company's revenue and grew 27.3% year over year.

Latin America continues to be a region where the Company invests resources to get closer to the customer. The team, located throughout Mexico and Brazil, is focused on all demand generation and reseller/distribution relationships for the various countries. Marketing materials, seminars, social media and artist relationships are managed locally, ensuring that our products resonate well with the local artist and audio community.

Like Latin America, the APAC region has seen increased focus and investment from the Company. With offices in Hong Kong and Australia supporting demand generation, account management and customer support, the APAC region has grown into a structure that will support the many regional markets in the territory and allows for future expansion as we look to increase our presence in areas with high growth potential. Within APAC, this past year saw the Focusrite Group go direct in Australia, setting up their our own logistics and warehouse to supply our Content Creation brands directly to the reseller channel.

**Summary and outlook**

For the current year, our first half year has seen demand for our products soften albeit remaining at a higher level than pre-pandemic. Revenue 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.

We remain mindful of the current significant global economic and political challenges, as well as the ongoing cost pressures in the supply chain, but we have worked hard to build back our inventory position. This provides greater resilience against supply chain volatility and ensures we are able to meet demand as we head into the key holiday season in FY23.

We have also introduced a number of measures to maintain margins, through pricing actions and ongoing review of our production costs. With new product launches across the product portfolio planned for FY23 and beyond we remain confident that the Company continues to have significant organic growth potential within our existing brands.

**Section 172 statement**

This section describes how the Directors have had regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006 in exercising their duty to promote the success of the company for the benefit of its members as a whole.

**Having regard to the likely consequences of any decision in the long term**

As customer demand for high-quality products increases and competitive products rival those of the Company, the operational cycle is becoming shorter. Despite this, the Board understands that its strategic decisions can have long-term implications for the business and its stakeholders, and these implications are carefully assessed.

**Having regard to the interests of its people**

Our people rely on the Company to provide stable employment and the opportunity to realise their potential in an appealing working environment. We also consider the interests of former employees who are members of a Company pension scheme and/or shareholders.

The Board takes active steps to ensure that the suggestions, views and interests of the workforce are captured and considered in decision-making. The Directors perform a high degree of personal oversight in the Company's employee engagement, measured partly through eNPS scores, which gives them an insight into the mood, culture and views of the workforce, which is then reported back to the Board.

**Having regard to foster the company's business relationships with suppliers, customers, and end users**

Throughout the period the Board was briefed on major matters with regard to key suppliers, notably with the Company's providers of components and freight forwarding services. The Board seeks to balance the benefits of maintaining strong partnering relationships with key suppliers alongside the need to obtain value for money for our investors and the desired quality and service levels for our products. The interests of customers are considered in key decisions, e.g., relating to: product lines, selection and monitoring of suppliers to ensure quality and safety standards are met and freight and logistics arrangements to maximise efficiencies from order to the delivery of products.

**Having regard to the impact of the company's operations on the community and the environment**

The Company has an established a 'Green Team' and the Board supports the team's goals and initiatives with regard to reducing adverse impacts on the environment and supporting the communities that it touches. See the Sustainability section on page 34 in Focusrite plc Annual Reports for more details. The Board intends to give further consideration to the Company's approach to climate change and further measures the Company can take to contribute to the reduction of our impact on the environment.

**Financial Review**

**Overview**

Revenue for the Company declined by 4.8% to £119.4 million (FY21: £125.3 million). EBITDA[2] declined by 26.0% to £28.7 million (FY21: £38.8million)

**Income statement**

***Revenue***

Revenue declined 4.8% from £125.3 million to £119.4 million.

Growth for the full year has slowed since the half year, due to significant global economic and political challenges, as well as the ongoing cost pressures in the supply chain, in particular for electronic chips used in many of the Company's products. Whilst our operations teams have secured supply and largely prevented stock outages with our supply partners, this has inevitably been a drag on our second half results and has continued throughout the first half of FY23. The primary ranges are Scarlett and Clarett; revenue on which declined by 3.7%.

Focusrite Pro supports 'master music makers' who produce music for a living and commercial operations such as post-production houses, live and broadcast stages and education establishments. Revenue declined by 5.3% to £4.6 million (FY21: £4.8 million).

Novation products, including Ampify, support all musicians wishing to create music with technology. The primary ranges are Launchpad, Launchkey, Circuit and the Peak and Summit synthesisers. Overall, revenue declined by 13.4% to £19.6 million (FY21 £22.6 million)

The Company reports regional performance in three groups: North America, EMEA and Rest of World (comprising APAC and LATAM). Top line revenue numbers for North America and EMEA were declined year over year, with ROW growing at 27.3%.

North America remains our largest region for the Company, accounting for 48% of total revenue in FY22. This past year, and coming off very high prior year comparatives, it finished consistently with FY21, at 97% of prior year revenue totals.

EMEA represents 34% of Company revenue. EMEA coming off very high pandemic level comparisons and facing headwinds caused by the conflict in Ukraine and concerns about recession, still managed to turn in a good performance, finishing 18.2% down when compared to the prior year.

The ROW comprises mainly Asia and South America and represents the remaining 18% of Company revenue. Revenue in ROW grew by 27.3%

***Segment profit***

Segment profit is disclosed in more detail in the note 5 to the accounts named, 'Business Segments'.

The segment profit for Focusrite was £50.1 million (FY21: £48.9 million). This increased by 2.4% over the prior year as the Scarlett Gen 3 product range continued to receive significant demand. Focusrite Pro weakened from £2.6 million to £1.8 million in FY22. Novation increased from £9.4 million to £11.6 million.

***Gross profit***

In FY22, the gross margin was 44.3%, down from 48.8% in FY21, which included a one-off benefit from US duty rebates of £1.5 million (1.2% points of margin). The remainder of the decline was principally due to the high freight rates and the increased costs from component spot buys experienced in the first half of the year continuing into the second half with sea freight rates only recently starting to reduce to closer to pre pandemic levels. The management of margin to get the best value out of discounts to the reseller channel remains a consistent priority.

***Administrative expenses***

Administrative expenses consist of sales, marketing, operations, the uncapitalised element of research and development and central functions such as legal, finance and the recharge of Focusrite plc management costs. These expenses were £29.4 million, up from £27.1 million last year.

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[2] Comprising earnings adjusted for interest, taxation, depreciation, amortisation and non-underlying items (see page 8)

*EBITDA*[3]

EBITDA is a non-GAAP measure but it is widely recognised in the financial markets and it is used within the Company as the basis for some of the incentivisation of senior management.

| | 2022 £'000 | 2021 £000 |
|---|---|---|
| Operating profit | **23,555** | 34,060 |
| Add amortisation (note 14) | **4,076** | 3,822 |
| Add depreciation (note 15) | **1,093** | 941 |
| **EBITDA** | **28,724** | 38,823 |

***Foreign exchange and hedging***

The average USD rate has strengthened from $1.36 to $1.31. The USD accounts for over 50% of Company revenue but over 70% of cost of sales, so this has decreased revenue but is neutral in terms of gross profit.

The Euro comprises approximately a quarter of revenue but little cost. The Company has continued entering into forward contracts to convert Euro to GBP. The policy adopted by the Company is to hedge approximately 75% of the Euro flows for the current financial year (year ended August 2022) and approximately 50% of the Euro flows for the following financial year (FY23). In FY21, approximately three-quarters of Euro flows were hedged at €1.13, and the average transaction rate was €1.18, thereby creating a blended exchange rate of approximately €1.14. In FY21, the equivalent hedging contracts were at €1.11, again close to the transactional rate of €1.14 and so creating a blended exchange rate of €1.12.

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***

Corporation tax as a proportion of profit before tax was 20.1% (FY21: 17.6%). The Company's profits are taxed in UK, where the headline rate is 19%. The rate of corporation tax as a proportion of profit has increased against prior year due to the Company moving to the RDEC ('Research and Development Expenditure credit') scheme from the SME ('Small and Medium Enterprise') enhanced expenditure deduction.

**Balance sheet**

***Non-current assets***

The non-current assets comprise mainly capitalised development costs; property, plant and equipment; and software.

***Working capital***

Working capital[4] increased to 57.4% of revenue (FY21: 39.5%). This planned increase arises from the Company rebuilding stock to historic norms to support customer demand, particularly ahead of the busy Thanksgiving and Christmas holiday season in 2022. In addition, the Company is holding higher than average levels of raw materials to ensure component supply is secure during FY23. Debtor balances are also high due to strong sales in the final quarter of the year, but as the Company has continued to place great emphasis on the timely collection of debts, this is expected to reduce during FY23. Creditors continue to be paid on time.

| | 2022 £'000 | 2021 £000 |
|---|---|---|
| Net current assets | **72,571** | 57,911 |
| Less cash at bank | **(3,945)** | (8,382) |
| **Working capital** | **68,626** | 49,529 |

**Cash flow**

The total cash balance at the year-end was £3.9 million, down from £8.4 million at 31 August 2021. Cash loans have been made to Focusrite plc in year to enable them to repay their revolving credit facility offsetting the increase in cash balances from the sale of goods.

| | 2022 £'000 | 2021 £000 |
|---|---|---|
| Cash and cash equivalents at the beginning of the year | **8,382** | 6,542 |
| Cash and cash equivalents at the end of the year | **3,945** | 8,382 |

[3] Comprising earnings adjusted for interest, taxation, depreciation, amortisation and non-underlying items

[4] Net current assets less cash, divided by revenue.

| | | |
|---|---|---|
| **Net increase/(decrease) in cash and cash equivalents** | **4,437** | 1,840 |
| Add equity dividends paid | - | 790 |
| **Free cash flow** | **4,437** | 2,630 |

**Summary**
The Company has once again delivered a robust financial performance, despite the prevailing global economic headwinds, and against very strong comparators. Much of the growth achieved during the COVID-19 period has been maintained. As planned, with production at record levels, FY22 has enabled us to rebuild our inventory in addition to increasing stock in our various channels, ready for the FY23 holiday season. We have a largely unleveraged balance sheet and are highly cash generative. We have achieved price increases to support margins and are managing other inflationary impacts to help support future growth.

**Key performance indicators**

In addition to reviewing individual Company business performance against annual budgets and quarterly reforecasts and monitoring cash flow management, the Board pays particular attention to identifying and monitoring Key Performance Indicators (KPIs). The principal KPIs monitored by the Board include:

- Revenue; down 4.8% from £125.3m to £119.4m in 2022
- EBITDA[5]; £28.9m in 2022 compared to £38.8m in 2021, a decreased of 25.6%
- Free cash flow; £4.4m which is 3.7% of revenue
- Net promotor score; Achieved a score of 71 largely in line with the previous year
- Number of Registered Core Users; 4.7million compared to 4.1million in 2021, an increase of 15%

**Principal Risks and Uncertainties**

Risk management plays an important role in everything we do at Focusrite and its objective is to add the maximum sustainable value to all of our activities.

**Overview**
As with any business, we face risks and uncertainties especially as the business grows throughout the world. Effective risk management helps support the successful delivery of our strategic objectives. We have an established risk management framework to identify, assess, mitigate and monitor the risks we face as a business and help deliver a balance between risk and opportunity.

**Risk Appetite**
During the year we reviewed and amended our risk appetite and have set a clear scale for how we categorise and quantify risk. All business teams are responsible for identifying and assessing their risks, both current and emerging, and measuring them against the defined criteria, considering the likelihood of occurrence and the potential impact to the Company.

**Risk Management**
A principal risk is a risk or combination of risks that can seriously affect the performance, future prospects or reputation of the Company. This includes those risks that would threaten our business model, future performance, solvency or liquidity and are aligned to our strategic goals and priorities. Our principal risks have been determined and reviewed by Focusrite Group's General Executive Committee and wider executive team and approved by the Board.

**Risk Culture**
The Board sets the risk culture for the business. Each risk has a single risk owner who is responsible for the monitoring and mitigation of that risk on an ongoing basis. The principal risks and their changes are reviewed by Focusrite Group's General Executive Committee. Their involvement ensures that the importance of risk management flows throughout the Company and risk assessments are included in new projects, business cases and strategic planning.

**Emerging Risks**
We seek to identify changes in existing risks, whilst also ensuring that there is appropriate focus on emerging risks. The consequences of the COVID-19 pandemic, the war in Ukraine and the threat of a long-lasting global recession dominate the changing and emerging risks we face as a business. We continue to monitor inflationary pressures, the

[5] Comprising earnings adjusted for interest, taxation, depreciation, amortisation and non-underlying items (see page 8)

resilience of our supply chain, changes in both routes to market and the retailer landscape and our ability to attract, retain and motivate talent not only in order to try and predict emerging and changing risks but also to ensure that we have an appropriate mitigation plan in place.
In previous years we viewed climate change as an emerging risk but now it is a principal risk that is assessed and the consequences managed through our risk management process.

**Current Focus**
We monitor and update our principal risks during the year. In doing so, we assess changing and emerging risks and the progress of our risk mitigation plans.

We have reduced the risk associated with our intellectual property following implementation of the Company's brand protection program. As a result, this is no longer deemed a principal risk. In addition, the risk of a customer or the systems we rely on to support them failing is covered by the cyber risk and the new macro-economic risk categories.

Finally, the principal risk relating to COVID-19 has been removed, in line with the UK government's roadmap to living with COVID-19 and as we have embedded the oversight and controls into our existing processes.

**Risks in the Year Ahead**
We will continue to embed the risk management approach into existing processes and ways of working to drive greater integration of risk management. We will work with risk owners to evolve and improve our approach to risk management and ability to manage uncertainties in the external environment.

**Principal Risks**
Our principal risks are those considered by the General Executive Committee to post the most potential threat to the smooth operation of the business. The table below (not in priority order) sets out our principal risks, a summary description of the risk, the connection with our strategy, and a summary of key controls in place to mitigate the impact should a risk come to fruition. Naturally risks change over time and so whilst the list is our current set of principal risks we see it as a live document. There will be unknown risks or risks currently assessed as less material, that may also have an adverse effect on the business in time.

| Principal risk/uncertainty | Mitigation |
|---|---|
| **Business strategy development and implementation →**<br><br>As the world emerges from the COVID-19 pandemic, uncertainty remains and therefore being able to implement our acquisition strategy and our move to direct to reseller remains a strategic priority against a backdrop of strain on the channel, in particular retailers having financial difficulties. | Change v prior year and residual risk<br>• We have worked collaboratively with our contractual partners through the challenges of the past 12 months to strengthen our relationships.<br>• We offer credit terms where necessary<br><br>Impact on the business<br>• If our products fail to win customers our existing brands will weaken which means we may lose and/or not win new customers.<br>• This would also lead to reduced margin and pricing not keeping up with inflation and/or customer trends.<br><br>Risk Mitigation<br>• We are increasing the different customer channels and markets in which we operate and continually monitor product performance and customer trends. |
| **Product innovation↑**<br><br>The market for the Company's products remains characterised by continued evolution in technology, evolving industry standards, frequent new competitive product introductions and – particularly in the post pandemic environment – changes in customer needs. The Company invests in designing and developing products that customers want to buy, at appropriate price points. Failure to meet the design, quality and value expectations will quickly see customers turn away from our products. | Change v prior year and residual risk<br>• Risk that our products fall out of favour with our customers if we do not adapt to changing needs, trends and demands and as such we lose market share/revenue, in an increasingly competitive market.<br><br>Impact on the business<br>• We have continued to develop and build our innovative product pipeline across our markets.<br><br>Risk mitigation<br>• We undertake continuous consumer and customer feedback into trends and insights in order to predict trends and adapt our product offering accordingly. |

| | |
|---|---|
| **Product Supply↑**<br><br>Due to the global supply chain issues, risks to our ability to service customer demand are real and present. | Change v prior year and residual risk<br>• The threat of scarcity of raw materials may result in the over purchase of such materials as and when available in order to ensure the availability of materials for production.<br>• The cost increases arising from supply and transportation challenges remain a risk to the business.<br><br>Impact on the business<br>• The unavailability of products that are essential for the Company to operate will have an impact on sales, cash flows and revenue.<br><br>Risk mitigation<br>• The Company has continued to communicate regularly with key semi-conductor companies instead of via distributors and the appointment of a full-time sourcing manager has helped to ensure the availability of materials to the Company.<br>• Where possible, the Company has also continued to make spot purchases of components in order to ensure their future availability. |
| **Information security, data privacy, business continuity and cyber risks →**<br><br>The unencumbered availability and integrity of the Company's IT systems is ever critical to successful trading.<br><br>The threat of a cyber security breach or an unauthorised or malicious attack is an ongoing and increasingly sophisticated risk that the Company believes would negatively impact its reputation. Similarly, the inadvertent processing of customer or employee data in a manner deemed unethical or unlawful could result in significant financial penalties, remediation costs, reputational damage and/or restrictions on our ability to operate. | Change v prior year and residual risk<br>• Investment in our cyber shields and efforts to support and drive employee awareness of phishing attacks and how to respond appropriately have continued.<br><br>Impact on the business<br>• Disruption to our information systems may have a significant impact on our sales, cash flows and profits.<br>• A cyber security breach could lead to unauthorised access to, or loss of, personal and/or sensitive information.<br><br>Risk Mitigation<br>• The Company's business continuity plan has been updated.<br>• Regular system and security patching is in place including the use of vulnerability scanning to identify security weakness.<br>• We also run regular phishing campaigns to raise awareness and such exercises are supported by training and guidance. |
| **Macroeconomic/Geopolitical conditions ↑**<br><br>The effect of the difficult global macroeconomic situation, rising cost inflation and the ongoing impact of the war in Ukraine is predicted to heavily impact FY23. The broader global political situation with China is also something that we monitor given our contract manufacturing presence there. | Change versus prior year and residual risk<br>• Changing geopolitical situations, in particular the effect of tensions in various parts of the world, have resulted in greater global volatility.<br><br>Impact on the business<br>• Political dynamics, which are outside of our control, are driving economics which are likely to have a lasting effect on the global economy.<br><br>Risk mitigation<br>• We have continued to build scale and diversification through our enhanced product offerings and expanded geographic reach.<br>• Regular management reviews monitor financial results, end markets, alternative product supply arrangements and competitor behaviour. |

| | |
|---|---|
| **People ↓**<br><br>People are critical to the Company's ability to meet the needs of its customers and end users and achieve its goals as a business. This requires the retention of senior managers and technical personnel as well as on our ability to attract, motivate and retain highly qualified People. | Change versus prior year and residual risk<br>• The appointment of a full time Company Head of People and a dedicated talent manager has seen the number of vacancies and time to recruit reduce.<br><br>Impact on the business<br>• We continue to rely on key individuals to contribute to the success of the Company. We need our people to develop their skills in order to future proof the Company's business whilst being able to attract, retain and motive People.<br><br>Risk Mitigation<br>• Employee surveys have been expanded across the Company and regular pulse surveys help ensure that Focusrite is a great place to work.<br>• Sharing people resources across the Company creates opportunities for career development and promotion opportunities.<br>• The Board consider succession planning, remuneration and the skills, diversity and experience of the Company's people to ensure there are plans for People's development. |
| **Climate Change ↑**<br><br>Climate change is a multi-faceted risk to the business at many levels. Failure to deliver on climate change initiatives, particularly around the reduction in the use of energy and carbon within required timescales, will have short, medium and long-term climate change risks to residents, businesses and infrastructure. | Change v prior year and residual risk<br>• Significant work to identify and model the key climate risks and opportunities has been undertaken.<br>• A number of key brands have switched to the use of recycled materials.<br><br>Impact on the business<br>• Reputational impact arising from the failure to adequately address societal concerns.<br>• Reduced availability of raw materials could result in price rises or interruptions to supply.<br>• Less sustainable product and supply options impact our market position.<br><br>Risk mitigation<br>• Systems to monitor and reduce the environmental impact of our operations and ensure compliance with environmental legislation are in place.<br>• Managing our operations towards a low-carbon future e.g., through the use of recycled materials in order to sustain the longevity and prosperity of the business.<br>• Sustainability criteria is embedded throughout the product design process in order to mitigate risks and identify opportunities to deliver our Planet objectives. |

By order of the Board

S. McKone

**Sally McKone**

Director

30 June 2023

## Directors' report

The Directors present their report together with the audited financial statements for the year ended 31 August 2022.

### Financial results and dividends

The audited accounts for the Company for the year ended 31 August 2022 are set out on pages 19 to 39. The Company profit for the year after taxation from continuing operations was £18.8 million (FY21: £28.4 million).

### Directors and directors' interests

The directors who held office during the year and to the date of this report were as follows:

T Carroll
T J Dingley
P S Dudderidge
D R Hawley
S Holt
S A McKone
P G Westall (resigned 28 February 2023)

### Dividends

During the year, no dividend was paid.

In FY21, Focusrite Plc undertook a restructure with the objective of merging three of the Group's US entities. To enable this, the Company distributed Focusrite Group US, a wholly owned subsidiary of the Company via a dividend in specie. Consequently, a dividend of £790,000 was disclosed in the prior period, although no cash payment was made.

### Directors' and officers' liability insurance

At no time during the year did any Director hold a material interest in any contract of significance with the Company or any of its subsidiary undertakings other than an indemnity provision between each Director and the Company and employment contracts between each Director and the Company. The Company has purchased and maintained throughout the year Directors' and Officers' liability insurance.

### Future business developments

The strategy of the Company is explained in the Strategic Report section of this Annual Report and Accounts which, as noted in the preamble to the Directors' Report, is incorporated into this Report by reference.

### R&D

The Company continues to invest in its research and development activities, as explained in the Strategic Report. The R&D costs expensed in the period were £2,252,000 (2021: £2,068,000).

### Health and safety

The Company is committed to providing a safe and healthy working environment for all staff and contractors. The Company's health and safety standard sets out the range of policies, procedures and systems required to manage risks and promote wellbeing. The General Counsel has overall accountability for health and safety across the organisation.

### Going concern

The Company's business activities, together with risk factors which potentially affect its future development, performance or position can be found in the Strategic Report on pages 2 to 12.

The Company is profitable and expects to continue to be so, with significant cash resources, a high and continuing level of revenue and also high levels of cash conversion expected for the foreseeable future. The Directors considered the going concern assumption and after careful enquiry and review of available financial information, including detailed projections of profitability and cash flows for the period to August 2024.

As a consequence of these factors and having reviewed the forecasts for the coming year, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis. Further details can be seen in the Going Concern section in note 1 to the financial statements.

### Audit information

Each of the Directors at the date of the Directors' Report confirms that so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware and they have taken all the reasonable steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of the information.

The confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

**Auditor**

Pursuant to section 487 of the Companies Act 2006 and having indicated its willingness to act, the Company will propose a resolution at the AGM that KPMG LLP be reappointed as auditor of the Company.

By order of the Board

S. McKone

**Sally McKone**

Director

Artisan
Hillbottom Road,
High Wycombe,
Buckinghamshire,
HP12 4HJ

30 June 2023

## Statement of directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

## Independent Auditor's Report to the Members of Focusrite Audio Engineering Limited

*Opinion*

We have audited the financial statements of Focusrite Audio Engineering Limited ("the Company") for the year ended 31 August 2022 which comprise Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 August 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

**Going concern**

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

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

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

**Fraud and breaches of laws and regulations – ability to detect**

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

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

- Enquiring of directors and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Considering remuneration incentive schemes and performance targets for management, including the EBITDA target for management remuneration.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

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

- the risk that Company management may be in a position to make inappropriate accounting entries.
- the risk that revenue from sales of products is overstated through recording revenues in the wrong period.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts such as sales and cash.
- Assessing significant accounting estimates for bias.

*Identifying and responding to risks of material misstatement related to compliance with laws and regulations*

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

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

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

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

Whilst the Company is subject to many other laws and regulations, we did not identify any others where the consequences of non- compliance alone could have a material effect on amounts or disclosures in the financial statements.

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

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

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

**Strategic report and directors' report**

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

**Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

**Directors' responsibilities**

As explained more fully in their statement set out on page 15, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

**The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

**James Tracey BSc ACA (Senior Statutory Auditor)**

**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

One Snowhill

Snow Hill Queensway

Birmingham

B4 6GH

30 June 2023

## Statement of comprehensive income

For the year ended 31 August 2022

| | Note | 2022 £'000 | 2021 £'000 |
|---|---|---|---|
| **Revenue** | 4 | **119,390** | 125,342 |
| Cost of sales | | **(66,467)** | (64,140) |
| **Gross profit** | | **52,923** | 61,202 |
| Administrative expenses | 6 | **(29,368)** | (27,142) |
| **Operating profit** | | **23,555** | 34,060 |
| Gain on sale of Focusrite Novation Inc | | **-** | 777 |
| Finance income | 8 | **14** | - |
| Finance costs | 9 | **(28)** | (329) |
| **Profit before tax** | | **23,541** | 34,508 |
| Income tax expense | 11 | **(4,732)** | (6,064) |
| **Profit for the year** | 6 | **18,809** | 28,444 |
| | | | |
| **Other comprehensive (loss)/income, net of income tax** | | | |
| *Items that may be reclassified subsequently to the income statement* | | | |
| Gain on forward foreign exchange contracts designated and effective as a hedging instrument | | **(1,009)** | 446 |
| Tax on hedging instrument | | **199** | (85) |
| **Total comprehensive income for the period** | | **17,999** | 28,805 |
| | | | |
| **Profit attributable to:** | | | |
| Owners of the Company | | **17,999** | 28,805 |
| | | **17,999** | 28,805 |

The result has been derived from continuing operations.

Notes 1 to 29 form part of the financial statements.

## Statement of financial position

As at 31 August 2022

| | Note | 2022 £'000 | 2021 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | 13 | **419** | 419 |
| Other intangible assets | 14 | **10,968** | 8,347 |
| Property, plant and equipment | 15 | **1,296** | 1,440 |
| Right of use asset | 15 | **2,996** | 205 |
| **Total non-current assets** | | **15,679** | 10,411 |
| **Current assets** | | | |
| Inventories | 17 | **27,354** | 8,537 |
| Trade and other receivables | 18 | **64,607** | 53,328 |
| Cash and cash equivalents | | **3,945** | 8,382 |
| Current tax asset | | **399** | 447 |
| Derivative financial instruments | | **-** | 716 |
| **Total current assets** | | **96,305** | 71,410 |
| **Total assets** | | **111,984** | 81,821 |
| **Current liabilities** | | | |
| Trade and other payables | 21 | **(22,429)** | (12,623) |
| Right of use lease liabilities | 20 | **(244)** | (183) |
| Provisions | 22 | **(768)** | (693) |
| Derivative financial instruments | | **(293)** | - |
| **Total current liabilities** | | **(23,734)** | (13,499) |
| **Net current assets** | | **72,571** | 57,911 |
| **Total assets less current liabilities** | | **88,250** | 68,322 |
| **Non-current liabilities** | | | |
| Right of use lease liabilities | 20 | **(2,762)** | (47) |
| Deferred tax | 19 | **(2,054)** | (1,522) |
| **Total liabilities** | | **(28,550)** | (15,068) |
| **Net assets** | | **83,434** | 66,753 |
| **Capital and reserves** | | | |
| Share capital | 23 | **58** | 58 |
| Share premium | | **332** | 332 |
| Deferred tax reserve | | **63** | 329 |
| Hedging reserve | | **(293)** | 716 |
| *Capital redemption reserve* | | **1,116** | 1,116 |
| Non-distributable reserve | 12 | **777** | 777 |
| Retained earnings | | **81,381** | 63,425 |
| **Total shareholder's funds** | | **83,434** | 66,753 |

The financial statements were approved by the Board of Directors and authorised for issue on 30 June 2023. They were signed on its behalf by:

S. McKone

**Sally McKone**
Director

Company registered number: 02357989

Notes 1 to 29 form part of the financial statements.

## Statement of changes in equity

For the year ended 31 August 2022

| | Share capital £'000 | Share premium £'000 | Deferred tax reserve £'000 | Hedging reserve £'000 | Capital redemption reserve £'000 | Non-distributable reserve £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|
| Balance at 1 September 2020 | 58 | 332 | 465 | 219 | 1,116 | - | 37,286 | 39,476 |
| Profit for the period | - | - | - | - | - | 777 | 27,667 | 28,444 |
| Other comprehensive gain/(loss) for the period | - | - | (136) | 497 | - | - | - | 361 |
| Total comprehensive income for the period | - | - | (136) | 497 | - | 777 | 27,667 | 28,805 |
| Transactions with owners of the Company: | | | | | | | | |
| Shares withheld to settle employees' tax obligations associated with share based payments | - | - | - | - | - | - | (738) | (738) |
| Dividends | - | - | - | - | - | - | (790) | (790) |
| Balance at 31 August 2021 | 58 | 332 | 329 | 716 | 1,116 | 777 | 63,425 | 66,753 |
| **Profit for the period** | **-** | **-** | **-** | **-** | **-** | **-** | **18,809** | **18,809** |
| **Other comprehensive gain/(loss) for the period** | **-** | **-** | **199** | **(1,009)** | **-** | **-** | **-** | **(810)** |
| **Total comprehensive income for the period** | **-** | **-** | **199** | **(1,009)** | **-** | **-** | **18,809** | **17,999** |
| **Transactions with owners of the Company:** | | | | | | | | |
| **Deferred tax movement on share options** | **-** | **-** | **(465)** | **-** | **-** | **-** | **-** | **(465)** |
| **Shares withheld to settle employees' tax obligations associated with share based payments** | **-** | **-** | **-** | **-** | **-** | **-** | **(853)** | **(853)** |
| **Dividends** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Balance at 31 August 2022** | **58** | **332** | **63** | **(293)** | **1,116** | **777** | **81,381** | **83,434** |

Notes 1 to 29 form part of the financial statements.

## Notes to the financial statements
For the year ended 31 August 2022

### 1 General information

Focusrite Audio Engineering Limited (the "Company"), is a company incorporated and domiciled in the United Kingdom. The address of its registered office is Artisan, Hillbottom Road, High Wycombe, Buckinghamshire, HP12 4HJ.

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

**Basis of preparation**

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare Consolidated financial statements. Accordingly, these financial statements present information about the Company as an individual undertaking and not about its Group. The financial statements for the year ended 31 August 2022 are presented in Pounds ('GBP' thousands; £'000). This is the functional currency of the Company.

The Company has measured its assets and liabilities in accordance with FRS 101.

The Company's parent undertaking, Focusrite plc, includes the Company in its consolidated financial statements. The consolidated financial statements of Focusrite plc are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from the Company's registered office.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash Flow Statement and related notes;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;

As the consolidated financial statements of Focusrite plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of Company settled share based payments;
- Certain disclosures required by IAS 36 Impairment of assets in respect of the impairment of goodwill and indefinite life intangible assets;
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures; and
- The disclosures required by IFRS 7 and IFRS 13 regarding financial instrument disclosures have not been provided apart from those which are relevant for the financial instruments which are held at fair value and are not either held as part of trading portfolio or derivatives.

**Going concern**

The Company's business activities and position in the market are described in the Strategic Report.

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

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

- Loss of or reduction in key revenue streams,
- Component shortages extending further into the future than budgeted,
- Loss of key distribution contracts.

Whilst climate change is considered to bring both risks and opportunities to the Company, we do not consider there to be a significant quantifiable risk in the short term, other than the potential loss of a distributor due to the increasing likelihood of extreme weather events, and this is included as one of scenarios. Component supply is still considered to be a risk, although the situation is improving. Our first scenario, the loss of key revenue streams, considers the impact of being unable to supply a major product group.

The base case covers a period of at least 12 months from the date of signing and includes demanding but achievable forecast growth. The forecast has been extracted from the Company's FY23 budget and three-year plan for the remainder of the going concern period.

Key assumptions include:

- Future growth assumptions consistent with those recently achieved by the business
- Working capital requirements in line with historic trends
- Continued investment in research and development
- Foreign exchange rates in line with those prevailing as at 31 August 2022

Throughout the period the forecast cash flow information indicates that the Company will have sufficient cash reserves. No drawdown from the facility would be required in the base case scenario.

The Directors' have modelled a severe but plausible downside scenario which combines the three risks identified above, including the Company experiencing all three downsides simultaneously. This model assumes that purchases of stock would, in time, reduce to reflect reduced sales, if they occurred, and the Company would respond to a revenue shortfall by taking reasonable steps to reduce overheads within its control.

Separately, the Directors estimate that if the Company were to experience a shortfall in revenue of greater than 40% permanently from the start of the forecast period, debt and leverage could rise to the upper limits allowed by the banking covenants of Focusrite plc. This scenario includes consequential reductions in the purchases of stock and overheads. As an additional measure, the Directors could also cancel the dividend. However, the Directors' view is that any scenario of a revenue shortfall of greater than the severe yet plausible scenario above is not realistic.

In practice, the Company is still experiencing levels of consumer registrations and customer demand greater than pre-COVID-19, and revenue in line with an aspirational budget since year end. This is evidenced by maintenance of the Company's net cash position (£4.5 million at 15 May 2023 compared to the £3.9 million reported at year end) despite increased spending on R&D for Scarlett Gen 4, stock build and the reduction in creditors.

As a consequence of these factors and having reviewed the forecasts for the coming year, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Further detail is contained in the Strategic Report on pages 2 to 12.

## 2 Accounting policies

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

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

**Investments**

Investments in subsidiaries are stated at cost less any provision for impairment.

**Goodwill**

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Company's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

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

On disposal of a subsidiary, the attributable amount of goodwill is included in determining profit or loss on disposal.

**Revenue recognition**

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

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

Due to the fact that the vast majority of sales by Focusrite involve sale of goods, the timing of the revenue recognition is considered in relation to 'Performance obligations satisfied at a point in time' (IFRS 15; 38) when one of the following has occurred:

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

*Sales of goods*

The Company has three routes to market for the sale of goods, covering all segments and geographical markets. Sales to distributors are made under contractual international commercial terms ("incoterms") which mean that control is transferred when goods are shipped. The incoterms used for sales to resellers and sales to end-users mean that control is transferred when goods are delivered.

*Sale of apps*

Revenue from the download of apps is recognised upon confirmation from the app store provider.

*Customer rebates*

Where the Company has rebate agreements with its customers, the value of customer rebates paid or payable, calculated in accordance with the agreements in place based on the most likely outcome, is deducted from turnover in the year in which the rebate is earned.

*Interest income*

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

**Adjusting items**

Adjusting items are those items that are unusual because of their size, nature or incidence, and are applied consistently year on year. The Directors consider that these items should be separately identified within their relevant income statement category to enable a full understanding of the Company's result.

**Leases**

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

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

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

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

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

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

The Company presents right-of-use assets in 'Property Plant and Equipment' and lease liabilities as 'Other Liabilities' in the statement of financial position.

**Foreign currencies**

Transactions in foreign currencies are translated to the Company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account. Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on transactions entered into to hedge certain foreign currency risks (see below under financial instruments / hedge accounting); and
- 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.

**Retirement benefit costs**

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

**Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax.

*Current tax*

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

*Deferred tax*

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

Deferred tax liabilities are only recognised for taxable temporary differences arising on investments in subsidiaries, where the Company is unable to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

**Valuation of investment in subsidiaries for business combination purposes**

For the purposes of valuation of the investments for the purposes of business combinations and reorganisations, the Company applies the acquisition method rather than the book value.

Any difference between the carrying amount of the asset and the dividend payable is recognised in comprehensive income.

**Tangible and intangible assets**

*Property, plant and equipment*

The Company has held no land and buildings for the period covered by the financial statements.

Other items of property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is recognised so as to write off the cost or valuation of assets less residual value over their useful lives, using the straight-line method, on the following bases:

| | |
|---|---|
| Plant, equipment and tooling | 3 to 5 years |
| Computer equipment | 2 years |
| Fixtures and fittings | 5 years |
| Leasehold improvements | 5 to 8 years |
| Customer demonstration units | 2 years |

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

*Intangible assets*

Intangible assets are amortised over the following periods on a straight-line basis:

| | |
|---|---|
| Development expenditure | 2 to 3 years |
| Purchased intellectual property | 2 years |
| Licences | 2 to 5 years |
| Computer software | 2 years |

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Company's development of new and enhanced products is recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as a product design);
- the asset is technologically feasible;
- the Company intends to complete the asset and use or sell it;
- adequate technical, financial and other resources are available to complete the asset and use or sell it;
- it is probable and demonstrable that the asset created will generate future economic benefits; and
- the costs of developing this asset can be measured reliably. Costs include payroll costs plus project-specific subcontractor and materials costs.

Where no internally-generated intangible asset can be recognised, the expenditure is recognised as an expense in the period in which it is incurred.

**Impairment of tangible and intangible assets excluding goodwill**

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired. Capitalised development costs are calculated by reference to the Company's product development department and will therefore be tested for impairment at cash generating unit level.

Recoverable amount is the higher of: (i) fair value less costs to sell and (ii) value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease to the extent that the revaluation balance is greater than the impairment loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years for the asset (or cash-generating unit). A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using either the First-In-First-Out method or, for fast moving items, the average cost method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

**Trade and other receivables**

Trade debtors, which generally have 30 to 60-day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. The company measures loss allowances at an amount equal to lifetime expected credit loss ('ECL'). Balances are written off when the probability of recovery is assessed as being remote.

**Financial instruments**

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

***Financial Assets***

All financial assets are normally recognised and derecognised on a trade date basis where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value. On derecognition however, where a specific transaction is entered into with a counterparty that is judged to carry a high credit or liquidity risk, then management may determine that derecognition of the financial asset shall be based on settlement date rather than trade date, with any realised gain or loss taken to profit and loss on date of settlement.

Financial assets are classified into the following specified categories: financial assets at 'fair value through profit or loss' ("FVTPL"), 'held-to-maturity' investments, 'held for sale' ("HFS") financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

***Classes of financial asset***

*Financial assets at FVTPL*

Financial assets are classified as at FVTPL when the financial asset is either held for trading or is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a Company of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the Companying is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the income statement.

*Loans and receivables*

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

*Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as HFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the differences between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

***Financial liabilities***

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

*Financial liabilities at FVTPL*

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a Company of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the Companying is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the income statement.

*Other financial liabilities*

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

***Derecognition of financial liabilities***

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

***Derivative financial instruments***

The Company is able to enter into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross currency swaps.

***Hedge accounting***

The Company 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 Company designates certain derivatives as hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

*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.

For cash flow hedges, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, 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.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

## 3 Critical judgements and estimations in applying the Company's accounting policies

The following are the important judgements and estimations that the Directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial information.

### Judgements

No significant judgements have been made in applying the Company's accounting policies. In FY21, a judgement was made regarding the relationship with our largest distributor in the US, but given contractual changes and established practice, it is now considered to be no longer a matter of judgement that they are considered a principal and not an agent.

### Estimates

The Directors do not believe there are any critical estimates in these financial statements due to the limited estimation required. Other estimates applied by the Company are set out below.

### Other Estimates

The Directors have applied the following judgements and estimates to these financial statements but consider them to be immaterial in this financial year.

***Revenue recognition***
There are certain cases where the Company would issue a credit note after the year end in respect of goods sold prior to the year end. One example is a retrospective rebate issued to a reseller if the reseller buys more than a targeted value of stock from the Company. A second example is in respect of a warranty claim made by a consumer for a non-working product.

The Company estimates the post-year-end financial impact of all of these adjustments and ensures that a sufficient credit note reserve exists to be confident that revenue recognised in the reported financial year will not be reversed in the following financial year. As an indication of the range of estimation in this area, the credit note provision at year end is £nil (2021: £156,000).

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

Management considered both the capitalisation and the recoverability of its internally-generated intangible assets for development costs which is included in the balance sheet at 31 August 2022 at £8,722,000 (2021: £7,612,000). The amount capitalised in the year was £5,534,000 (2021: £4,048,000). Management applied estimates in their assessment of amounts capitalised in accordance with IAS 38 *Intangible Assets*, in particular around measuring reliably the expenditure incurred on projects during their development. These projects continue to progress in a satisfactory manner, and customer reaction has reconfirmed management's previous estimates of anticipated revenues from the projects.

Management is confident that the carrying amount of the asset will be recovered in full. This situation will be closely monitored, and adjustments made in future periods if future market activity indicates that such adjustments are appropriate.

## 4 Revenue

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

| | Year ended 31 August | |
|---|---|---|
| | **2022** | 2021 |
| | **£'000** | £'000 |
| **Continuing operations** | | |
| North America | **57,551** | 59,146 |

| | | |
|---|---|---|
| Europe, Middle East and Africa | **40,273** | 49,261 |
| Rest of World | **21,566** | 16,935 |
| Revenue | **119,390** | 125,342 |

## 5 Business Segments

### Products and services from which reportable segments derive their revenues

Information reported to the Board of Directors for the purposes of resource allocation and assessment of segment performance is focused on the main products which Focusrite sells. While the results of Novation and Ampify are reported separately to the board, they are aggregated together for the purposes of segmental reporting. The Company's reportable segments under IFRS 8 are therefore as follows:

Focusrite – Sales of Focusrite branded products

Focusrite Pro – Sales of Focusrite Pro branded products

Novation -- Sales of Novation or Ampify branded products

Distribution – Distribution of brands belonging to other companies within the Focusrite Group, including ADAM Audio and Sequential products

### Segment revenues and results

The following is an analysis of the Company's revenue and results by reportable segment:

| | Year ended 31 August | |
|---|---|---|
| | **2022** | 2021 |
| | **£'000** | £'000 |
| **Revenue from external customers** | | |
| Focusrite | **92,041** | 95,597 |
| Focusrite Pro | **4,551** | 4,807 |
| Novation | **19,606** | 22,647 |
| Distribution | **3,192** | 2,291 |
| **Total** | **119,390** | 125,342 |
| **Segment profit** | | |
| Focusrite | **50,083** | 48,906 |
| Focusrite Pro | **1,767** | 2,643 |
| Novation | **11,613** | 9,388 |
| Distribution | **3,005** | 265 |
| | **66,468** | 61,202 |
| Central distribution costs and administrative expenses before non-underlying items | **(42,913)** | (27,142) |
| Adjusting items | **-** | - |
| Operating profit | **23,555** | 34,060 |
| Other Income | **-** | 777 |
| Finance income | **14** | - |
| Finance costs | **(28)** | (329) |
| Profit before tax | **23,541** | 34,508 |
| Tax | **(4,732)** | (6,064) |
| Profit after tax | **18,809** | 28,444 |

Segment profit represents the profit earned by each segment without allocation of the share of central administration costs including Directors' salaries, investment revenue and finance costs, and income tax expense. This is the measure reported to the Board of Directors for the purpose of resource allocation and assessment of segment performance.

Central administration costs comprise principally the employment related costs and other overheads incurred by Focusrite and its US, Hong Kong and Australian subsidiary, net of inter-company commission income. Also included within central administration costs is a management recharge of £4,558,000 (2021: £3,646,000) of which £1,313,000 relates to the share option scheme charge (note 26) for the year ended 31 August 2022 (2021: £859,000).

The Company's non-current assets, analysed by geographical location were as follows:

| | **2022** | 2021 |
|---|---|---|
| | **£'000** | £'000 |

| | | |
|---|---|---|
| **Non-current assets** | | |
| North America | **-** | - |
| Europe, Middle East and Africa | **14,824** | 9,446 |
| Rest of World | **852** | 965 |
| **Total non-current assets** | **15,676** | 10,411 |

**Information about major customers**

Included in revenues shown for 2022 is £51.3 million (2021: £53.2 million) attributed to the Company's largest customer. Amounts owed at end of year is £7.9 million (2021: £4.2 million).

## 6 Profit for the year

Profit for the year has been arrived at after charging:

| | | Year ended 31 August | |
|---|---|---|---|
| | | **2022** | 2021 |
| | Note | **£000** | £000 |
| Net foreign exchange (gains)/losses | 8,9 | **(13)** | 322 |
| Research and development costs | | **2,252** | 2,068 |
| Depreciation and impairment of property, plant and equipment | 15 | **1,093** | 941 |
| Loss on disposal of property, plant and equipment | | **1** | 467 |
| Amortisation of intangibles | 14 | **4,076** | 3,822 |
| Cost of inventories recognised as an expense | | **52,823** | 54,998 |
| Staff costs | 10 | **9,247** | 8,890 |
| Impairment (gain)/loss recognised on trade receivables | 18 | **(17)** | 53 |
| Management recharge from Focusrite plc | | **4,558** | 3,646 |

## 7 Auditors' remuneration

| | Year ended 31 August | |
|---|---|---|
| | **2022** | 2021 |
| | **£000** | £000 |
| Fees payable to the Company's auditors for the audit of the Company's annual accounts | **106** | 85 |
| | **106** | 85 |

## 8 Finance income

| | Year ended 31 August | |
|---|---|---|
| | **2022** | 2021 |
| | **£000** | £000 |
| Bank deposit interest | **1** | - |
| Exchange gain | **13** | - |
| Finance income | **14** | - |

## 9 Finance costs

| | Year ended 31 August | |
|---|---|---|
| | **2022** | 2021 |
| | **£000** | £000 |
| Bank charges | **28** | 7 |
| Exchange loss | **-** | 322 |
| Finance costs | **28** | 329 |

## 10 Staff costs and directors' remuneration

a) Staff costs

| | Year ended 31 August | |
|---|---|---|
| | **2022** | 2021 |
| | **£000** | £000 |
| Wages and salaries | **9,790** | 9,437 |

| | | |
|---|---|---|
| Social security costs | **1,989** | 1,534 |
| Other pension costs | **429** | 248 |
| Share-based payments | **1,313** | 859 |
| | **13,521** | 12,078 |
| Less amounts capitalised within development costs | **(4,274)** | (3,188) |
| | **9,247** | 8,890 |

The average number of persons, including executive directors, employed by the Company during the year was as follows:

| | **2022** | 2021 |
|---|---|---|
| | **Number** | Number |
| Research and development | **117** | 108 |
| Sales and marketing | **53** | 68 |
| Operations | **51** | 91 |
| Administration and central | **43** | 28 |
| | **264** | 295 |

b) Directors' remuneration

| | Year ended 31 August | |
|---|---|---|
| | **2022** | 2021 |
| | **£000** | £000 |
| Management remuneration and fees | **1,604** | 1,446 |
| Pension contributions | **57** | 59 |
| Other taxable benefits | **8** | 8 |
| | **1,669** | 1,513 |
| In respect of the highest paid director: | | |
| Management remuneration and fees | **609** | 429 |
| Benefits | **3** | 2 |
| | **612** | 431 |

## 11 Tax

| | Year ended 31 August | |
|---|---|---|
| | **2022** | 2021 |
| | **£'000** | £'000 |
| **Corporation tax charges:** | | |
| Current year | **4,477** | 5,984 |
| Adjustments in respect of prior periods | **(11)** | (482) |
| | **4,466** | 5,502 |
| **Deferred taxation** | | |
| Current Year | **269** | 562 |
| Adjustments in respect of prior periods | **(3)** | - |
| | **4,732** | 6,064 |

Corporation tax is calculated at 19% (2020: 19%) of the estimated taxable profit for the year.

The tax charge for each year can be reconciled to the profit per the income statement as follows:

| | Year ended 31 August | |
|---|---|---|
| | **2022** | 2021 |
| | **£'000** | £'000 |
| **Current taxation** | | |
| Profit before tax on continuing operations | **23,541** | 34,508 |
| Tax at the UK corporation tax rate of 19% (2020: 19%) | **4,473** | 6,557 |
| Effects of: | | |
| Expenses not deductible for tax purposes | **12** | 12 |
| Additional/enhanced tax reliefs | **(26)** | - |
| R&D tax credit | **-** | 120 |
| Adjustments in respect of prior periods | **(14)** | (483) |
| Group relief | **118** | (459) |
| Effects of UK tax rate changes | **169** | 317 |

| | | |
|---|---|---|
| Total tax charge for period | **4,732** | 6,064 |

An increase in the UK corporation rate from 19% to 25% (effective from 1 April 2023) was substantively enacted on 24 May 2021. This will increase the company's future current tax charge accordingly. The deferred tax liability at 31 August 2022 has been calculated based on these rates, reflecting the expected timing of reversal of the related temporary differences

**12 Dividends**

The Company paid no dividends during the year.

At 31 August 2021, the Company distributed Focusrite Company US Inc. ('FGUS') (previously known as Focusrite Novation Limited) to Focusrite plc through a dividend in specie. The value attributed to FGUS was £790,000 based on the fair value of the company at the time of the dividend. £790,000 dividend distributed on transfer of FGUS to Focusrite plc, less £13,000 initial investment cost, has been treated as non-distributable within capital and reserves.

**13 Goodwill**

| | £'000 |
|---|---|
| **Cost** | |
| At 31 August 2020 | 419 |
| At 31 August 2021 | 419 |
| **At 31 August 2022** | **419** |
| | |
| **Carrying amount** | |
| At 31 August 2020 | 419 |
| At 31 August 2021 | 419 |
| **At 31 August 2022** | **419** |

No impairment losses have been required on goodwill amounts recognised in the Company to date.

Goodwill arose as a result of a transfer on 31 August 2006 of the assets and liabilities of Novation Digital Music Systems Limited for a consideration of £711,000. Accordingly, the whole of the value of goodwill is attributable to the Novation cash generating unit ('CGU').

An impairment assessment in relation to this CGU was performed by management. The recoverable amounts of this CGU have been determined based on the value in use method. The calculations use cash flow projections based on financial budgets financial budgets and three-year plan approved by management covering a four-year period to the end of FY26. Cash flows beyond that period have been extrapolated using a 1% growth rate (FY21: 1%) based on IMF estimates of long-term inflation thereafter. A pre-tax discount rate of 10.8% (2021: 9.4%) has been assumed.

Management believes that any reasonably possible change in the key assumptions on which this CGU's recoverable amount is based would not cause the carrying amount to exceed it's recoverable amount.

**14 Other Intangible assets**

| | Intellectual property £'000 | Development costs £'000 | Licences £'000 | Trademark £'000 | Computer software £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 September 2020 | 495 | 22,889 | 167 | 826 | 1,223 | 25,600 |
| Additions | - | 4,048 | 30 | 200 | 191 | 4,469 |
| Disposals | - | (2,839) | - | - | - | (2,839) |
| At 31 August 2021 | 495 | 24,098 | 197 | 1,026 | 1,414 | 27,230 |
| Additions | - | 4,617 | 1,684 | 354 | 42 | 6,697 |
| Disposals | (90) | - | - | - | - | (90) |
| **At 31 August 2022** | **405** | **28,715** | **1,881** | **1,380** | **1,456** | **33,837** |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Amortisation** | | | | | | |
| At 1 September 2020 | 495 | 15,569 | 122 | 464 | 781 | 17,431 |
| Charge for the year | - | 3,289 | 41 | 285 | 207 | 3,822 |
| Disposals | - | (2,370) | - | - | - | (2,370) |
| At 31 August 2021 | 495 | 16,488 | 163 | 749 | 988 | 18,883 |
| Charge for the year | - | 3,507 | 61 | 286 | 222 | 4,076 |
| Disposals | (90) | - | - | - | - | (90) |
| **At 31 August 2022** | **405** | **19,995** | **224** | **1,035** | **1,210** | **22,869** |
| | | | | | | |
| **Carrying amount** | | | | | | |
| **At 31 August 2022** | - | **8,720** | **1,657** | **345** | **246** | **10,968** |
| At 31 August 2021 | - | 7,610 | 34 | 277 | 426 | 8,347 |
| At 31 August 2020 | - | 7,320 | 45 | 362 | 442 | 8,169 |

## 15 Property, plant and equipment

| | Plant, tooling equipment and machinery | Fixtures, fittings & leasehold improvements | Computer equipment | Customer demonstration units | Right-of-use asset | Total |
|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | | £'000 |
| **Cost** | | | | | | |
| At 1 September 2020 | 2,544 | 983 | 1,080 | 93 | 649 | 5,349 |
| Additions | 375 | - | 228 | - | 57 | 660 |
| Disposals | - | - | - | - | - | - |
| At 31 August 2021 | 2,919 | 983 | 1,308 | 93 | 706 | 6,009 |
| Additions | 463 | - | 228 | - | 3,054 | 3,745 |
| Disposals | (19) | - | (5) | - | - | (24) |
| **At 31 August 2022** | **3,363** | **983** | **1,531** | **93** | **3,760** | **9,730** |
| | | | | | | |
| **Accumulated depreciation and impairment** | | | | | | |
| At 1 September 2020 | 1,481 | 766 | 859 | 93 | 224 | 3,423 |
| Charge for the year | 349 | 86 | 229 | - | 277 | 941 |
| Eliminated on disposal | - | - | - | - | - | - |
| At 31 August 2021 | 1,830 | 852 | 1,088 | 93 | 501 | 4,364 |
| Charge for the year | 501 | 107 | 222 | - | 263 | 1,093 |
| Eliminated on disposal | (16) | - | (3) | - | - | (19) |
| **At 31 August 2022** | **2,315** | **959** | **1,307** | **93** | **764** | **5,438** |
| | | | | | | |
| **Carrying amount** | | | | | | |
| **At 31 August 2022** | **1,048** | **24** | **224** | **-** | **2,996** | **4,292** |
| At 31 August 2021 | 1,089 | 131 | 220 | - | 205 | 1,645 |
| At 31 August 2020 | 1,063 | 217 | 221 | - | 425 | 1,926 |

## 16 Investments

| | Shares in Company undertakings |
|---|---|
| | £'000 |
| **Cost and net book value** | |
| **At 31 August 2022** | **-** |
| At 31 August 2021 | - |
| At 31 August 2020 | 13 |

The investment of £13,000 represented the entire issued share capital of Focusrite Group US Inc ('FGUS') (previously known as Focusrite Novation Inc). On 31 August 2021, FGUS was distributed to Focusrite plc via a dividend in specie therefore the investment in FGUS has been disposed of. The Company's principal subsidiary undertakings for the period are set out below, including the name, country of incorporation, and proportion of ownership, and controlling, interest.

| Name | Country of registration or incorporation | Address | Principal activity | Class of shares | **2022 %** | 2021 % |
|---|---|---|---|---|---|---|
| Focusrite Novation Asia Limited | Hong Kong | 2316, 23/F Hong Kong Plaza, 181-191 Connaught Road West, Shek Tong Tsui, Hong Kong | Marketing services | Ordinary | **100** | 100 |
| Focusrite Australia PTY Limited | Australia | Suite 5, Level 1, 796 High Street, Kew East, Victoria 3102, Australia | Marketing services | Ordinary | **100** | 100 |

## 17 Inventories

| | **2022 £'000** | 2021 £'000 |
|---|---|---|
| Raw materials | **-** | 89 |
| Finished goods | **27,354** | 8,448 |
| | **27,354** | 8,537 |

The stock value includes a provision of £1,279,000 (2021: £779,000). The stock provision is for slow moving inventory where demand is low, therefore at higher risk of becoming obsolete. Of this provision, £nil (2021: nil) was reversed and £nil (2021: £54,000) was utilised during the year. No inventories have been pledged as security against borrowings (2021: £nil).

## 18 Trade and other receivables

| | **2022 £'000** | 2021 £'000 |
|---|---|---|
| Amount receivable for the sale of goods | **22,520** | 9,255 |
| Expected credit loss | **(111)** | (129) |
| | **22,409** | 9,126 |
| Other debtors | **214** | 987 |
| Prepayments | **792** | 696 |
| Amounts owed by Group undertakings | **41,192** | 42,519 |
| | **64,607** | 53,328 |

The amounts owed by Group undertakings are interest free, repayable on demand and are expected to be received within one year. It includes amounts owed by subsidiaries wholly owned by the Company's parent.

Trade receivables disclosed above are classified as loans and receivables and are measured at amortised cost.

The Company has not charged interest for late payment of invoices in 2022 or 2021.

Expected credit loss is recognised against overdue trade receivables based on estimated irrecoverable amounts determined by reference to past default experience. Specific counterparty risk is also considered where an analysis of the counterparty's current financial position indicates a change in credit risk.

Before accepting any significant new customer, the Company uses a variety of credit scoring systems to assess the potential customer's credit quality and to define credit limits for each customer. Limits and scoring attributed to customers are reviewed regularly. A single major distributor accounted for 35% of the total balance of trade receivables net of allowances for doubtful debts on 31 August 2022 (2021: 45%). No other single customer accounted for more than 10% of the total balance of trade receivables net of allowances for doubtful debts during the period under review.

Trade receivables disclosed above include amounts which are past due at the year-end but against which the Company has not recognised an allowance for doubtful receivables. There has not been a significant change in credit quality and the amounts are still considered recoverable.

## 19 Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Company:

| | Capitalised development Costs £'000 | Share based payments £'000 | Hedging instrument £'000 | Other deferred tax £'000 | **Total £'000** |
|---|---|---|---|---|---|
| At 1 September 2020 | 1,470 | (646) | 51 | - | 875 |
| (Credit)/debit to profit or loss | 459 | 2 | - | 101 | 562 |

| | | | | | |
|---|---|---|---|---|---|
| (Credit)/debit to other comprehensive income | - | - | 85 | - | 85 |
| At 31 August 2021 | 1,929 | (644) | 136 | 101 | 1,522 |
| (Credit)/debit to profit or loss | 157 | 179 | - | (70) | 266 |
| (Credit)/debit to other comprehensive income | - | - | (199) | - | (199) |
| Equity charge | | 465 | | | 465 |
| **At 31 August 2022** | **2,086** | **-** | **(63)** | **31** | **2,054** |

## 20 Leases

The Company has leases for its office and office related equipment. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet. The Company classifies its right-of-use assets within 'property, plant and equipment' (see note 15).

The remaining terms of the leases for offices and warehouses range from one to 11 years in term, with the last leases due to expire in 2033. Lease payments are generally fixed and there is no option to purchase the buildings at the end of the term. For leases over office buildings and warehouses the Company must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Rent reviews and break clauses apply to leased property agreements.

Right-of-use assets consist of the following leases:

| | **2022** | 2021 |
|---|---|---|
| | **£'000** | £'000 |
| Offices and warehouses | **2,996** | 205 |
| | **2,996** | 205 |

Lease liabilities related to leases are split between current and non-current:

| | **2022** | 2021 |
|---|---|---|
| | **£'000** | £'000 |
| Current | **244** | 183 |
| Non-current | **2,762** | 47 |
| | **3,006** | 230 |

When measuring the lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate. The rate applied to leases adopted in the year was 1.19%.

At the balance sheet date the Company had outstanding commitments for future minimum lease payments under non-cancellable leases, which fall due as follows:

| | **Minimum lease payments** | |
|---|---|---|
| | **2022** | 2021 |
| | **£'000** | £'000 |
| Within one year | **264** | 186 |
| In the second to fifth years inclusive | **1,178** | 47 |
| After five years | **1,769** | - |
| | **3,211** | 233 |

## 21 Trade and other payables

| | **2022** | 2021 |
|---|---|---|
| | **£'000** | £'000 |
| Trade payables | **12,859** | 6,028 |
| Accrued expenses | **5,815** | 5,297 |
| Other payables | **743** | 490 |
| Amounts owed to Group undertakings | **3,012** | 808 |
| | **22,429** | 12,623 |

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. No interest costs have been incurred in relation to trade payables. The Company policy is to ensure that payables are paid within the pre-agreed credit terms and to avoid incurring penalties and/or interest on late payments. Other creditors include sales taxes, property taxes, social security and employment taxes due to local tax authorities.

The directors consider that the carrying amount of trade payables approximates their fair value.

The amounts owed to Group undertakings are interest free and repayable on demand.

## 22 Provisions

| | Duty | Property | Total |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| At 1 September 2021 | 415 | 278 | **693** |
| Foreign Exchange | 75 | - | **75** |
| At 31 August 2022 | 490 | 278 | **768** |
| Current | 490 | 278 | **768** |
| Non-current | - | - | - |
| | 490 | 278 | **768** |

The duty provision was established in FY20 to cover the retrospective correction of the duty paid prior to March 2020. See Note 26 for more detail.

*Property provisions relate to the maximum potential costs to reinstate the Company's leased buildings to their condition* at lease commencement as well as associated advisor's fees. As the Company's lease expires in FY23, it is expected that the provision will be fully utilised in FY23. The impact of discounting on the property provision value is immaterial.

## 23 Share capital

The Company has one class of ordinary shares which carry no right to fixed income.

| | 2022 | 2021 |
|---|---|---|
| | **Number** | Number |
| **Issued and fully paid:** | | |
| Ordinary shares of £0.001 each | **58,075,000** | 58,075,000 |

| | 2022 | 2021 |
|---|---|---|
| | **£'000** | £'000 |
| **Issued and fully paid:** | | |
| Ordinary shares of £0.001 each | **58** | 58 |
| | **58** | 58 |

## 24 Retirement benefit scheme

The Company operates a stakeholder retirement benefit scheme which is open to all employees.

Other than amounts that are deducted from employees' remuneration and accrued pending payment to the pension fund, no further obligations fall on the Company as the assets of these arrangements are held and managed by third parties entirely separate from the Company.

The pension charge for the period represents contributions payable to the fund and amounted to £1,103,000 for the year ended 31 August 2022 (2021: £908,000). Contributions totalling £81,000 (2021: £73,000) were payable to the fund at the balance sheet date and are included in trade and other payables.

## 25 Contingent liabilities

In the opinion of the Directors, the Company is not involved currently in any legal proceedings which, at 31 August 2021 and for the period up to the date of approval of these financial statements, have had a significant effect on the financial position or profitability of the Company.

## 26 Contingent assets

In early 2020, Focusrite agreed with the US authorities to use a new import code for Scarlett interfaces. This resulted in a retrospective correction for duty, with a payment of $1.0 million, accrued for in FY20, and a rebate of $2.5 million, which was accounted for as a contingent asset. As at 31 August 2022 the rebates had all been received (2021: $0.5 million outstanding as a contingent asset), and as a result there is no contingent asset at 31 August 2022.

## 27 Related party transactions

Transactions between the Company and related parties, which are not wholly owned subsidiaries, are disclosed below.

During the year, the Company continued a commercial lease agreement in Lincoln Road, High Wycombe. Mr P Dudderidge, a Director of Focusrite Audio Engineering Limited and shareholder of Focusrite plc, is the landlord of the property in Lincoln Road, High Wycombe. The annual rental is £24,250 (2021: £24,250) and is charged on an arm's length basis.

## 28 Related party transactions

Focusrite plc is the ultimate and immediate parent company as at 31 August 2022. Focusrite plc is a publicly traded company on AIM stock exchange, with no individual shareholder having a controlling share.

## 29 Capital commitments

As at 31 August 2022, the Company had a capital commitment of US $704k relating to technical development work with an external third party. This was paid during FY23.