

Focusrite

Cautious optimism after significant challenges

Focusrite's (TUNE's) FY24 results highlight the negative effects of the most challenging year the CEO has faced. While the company's main operating market has been difficult, management has continued to invest in development and release new products, which have enabled TUNE to outperform and gain share across all markets in FY24, and should enable it to thrive when conditions improve. With signs of stabilisation in its most important segment, TUNE's valuation looks attractive.

FY24 results: Headlines flagged in trading update

Group revenue declined 11% y-o-y (10% organically) to £158.5m and adjusted EBITDA declined by c 35% to £25.2m. The results reflect that TUNE's two key divisions were pulled in opposite directions. The Audio Reproduction division provided strong growth (+14% organic) as it continued to enjoy the post-pandemic recovery of attendance at live events etc. The overall group decline in revenue is attributed to weakness in TUNE's largest division, Content Creation (c 70% of group revenue, -17% organic), due to macroeconomic weakness and de-stocking in the supply chain post the COVID-19 pandemic.

Growth expectations

Over the medium term, management targets mid/high-single-digit organic revenue growth, with the assumptions that TUNE will grow in new products and take market share in its newer brands. For the current year, there are welcome signs of stabilisation in Content Creation, while management expects to outperform a slowing (ie post-pandemic recovery normalising) Audio Reproduction market. Current trading for the first three months of FY25 is in line with expectations, against a tough comparative. Consensus is forecasting modest revenue growth of c 2–3% in FY25 and FY26.

Valuation: Well below long-term average multiples

Having proven to be a beneficiary of the pandemic, the subsequent retracement of the share price and profitability as trading normalised and cost pressures increased has led to TUNE trading at a significant discount to historical multiples. For FY25 and FY26, its prospective EV/sales multiples of 1.1x and 1.0x, respectively, are well below its long-term (since FY15) average multiple of 2.2x, when we exclude FY21 and FY22. They are comparable with its all-time low multiple. Similarly, its FY25 and FY26 EV/EBITDA multiples of 6.8x and 6.6x compare with its average multiple of 11.0x, when FY21 and FY22 are excluded. A return to more positive trading should be helpful for its valuation. TUNE's attractive relative valuation featured in our recent [sector report](#).

Consensus estimates

Year end	Revenue (£m)	EBITDA (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
08/23	178.5	38.6	18.0	6.6	14.7	2.5
08/24	158.5	25.2	38.4	6.6	6.9	2.5
08/25e	161.1	25.1	N/A	7.0	N/A	2.6
08/26e	166.3	25.9	N/A	7.0	N/A	2.6

Source: LSEG Data & Analytics, 27 November 2024

Consumer electricals

28 November 2024

Price 265p
Market cap £157m

Share price graph



Share details

Code	TUNE
Listing	LSE
Shares in issue	59.2m

Business description

Focusrite is a global music and audio products group supplying hardware and software used by professional and amateur musicians and the entertainment industry that enables the high-quality creation and reproduction of music.

Bull

- Long-term structural growth for the creation and consumption of music.
- Leading brands, key sales partnerships in place.
- Experienced management team with a proven track record.

Bear

- Changing and competitive markets require regular new products.
- Far East sourcing ensures the company is exposed to changes in freight rates and pricing of commodities.
- Potential for greater tariffs but the company is looking to mitigate.

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