

Chairman's and Group CEO's Address 2019 Annual General Meeting

Chairman's Address

Good morning ladies and gentlemen. Welcome to the 16th Annual General Meeting of JB Hi-Fi Limited.

The financial year ended 30 June 2019 was another record year for JB Hi-Fi Limited and its subsidiaries (the "Group") with sales, profits and dividends all up on the prior year. The 2019 result was driven by a combination of sales growth and our low cost of doing business, underpinned by our ongoing emphasis on customer service.

The Group comprises two leading retail brands: JB HI-FI, with a focus on Technology and Consumer Electronics; and The Good Guys, with a focus on Home Appliances and Consumer Electronics.

The value proposition for each brand centres around ranging the best brands at low prices supported by exceptional customer service across our store network in Australia and New Zealand, our online offering and through our commercial channels, JB HI-FI Solutions and The Good Guys Commercial.

The dual branded retail approach is underpinned by five key enablers that provide the Group with a unique competitive advantage, being:

- scale;
- a low cost operating model;
- quality store locations;
- strong supplier partnerships; and
- our multichannel capabilities.

An integral part of the Board's ongoing strategy is to encourage innovation and diversification through new products, technology, merchandising formats, advertising and property locations, in a controlled and responsible manner to ensure that we remain current and relevant to our customers. We have a culture of embracing change, which is seen as a "natural" part of the business, and this approach provides opportunities to increase revenue, margin and productivity.

We have a high level of loyalty and trust from our customers. The JB HI-FI business has been consistently ranked among Australia's most reputable companies and ranked third in the 2019 Corporate Reputation Index released by the Reputation Institute. Additionally, in September 2019 The Good Guys business won the Canstar Blue Most Satisfied Customers Electronic Retailers Award for a record ninth consecutive year.

As at 30 June 2019, the Group employed approximately 12,500 full-time, part time and casual staff across Australia and New Zealand. Our motivated, passionate, knowledgeable and highly trained staff continue to be our most important asset. We believe the Group is an employer of choice, with a busy, enjoyable and, most importantly, safe working environment that helps us to continue to attract and retain high calibre staff.

The Board firmly believes that equity participation for management through the Group's share ownership-based remuneration schemes creates strong alignment with shareholders and is a critical tool in attracting new management, retaining existing management and rewarding performance. In FY19 the Board introduced a new variable reward plan for group executives and a minimum shareholding requirement for both group executives and non-executive directors, further strengthening the alignment between the Board, management and shareholders.

The Board recognises the importance of governance, environmental and social matters to our shareholders, suppliers and customers and continually reviews and monitors developments in corporate governance which are relevant to the Group.

The Board is committed to ensuring that the Group's business is conducted ethically and in accordance with high standards of corporate governance. To this end, the Group has a Code of Conduct that provides guidance on what the Group deems to be acceptable behaviour and the Group has recently adopted a Sustainability Plan, which outlines our commitment to having a positive impact on our people, our environment and our community.

The key areas of focus in this Sustainability Plan are:

- Health, Safety and Diversity – encouraging a diverse and inclusive work environment and protecting the health and safety of our people;
- Energy Consumption and Efficiency – monitoring and reducing our energy consumption and greenhouse gas emissions;
- Product and Waste Recycling – minimising the waste we create and encouraging responsible recycling;
- Social Impact – supporting social causes that are important to our staff, particularly through our workplace giving programs; and
- Ethical Sourcing – working with our supply partners to improve working conditions in our supply chain and ensure what we use and sell is sourced ethically.

The Group regularly reviews all aspects of its capital structure with a focus on maximising returns to shareholders. Continued solid earnings growth and prudent management of our balance sheet, including relatively low gearing, provides the ability for us to maintain and optimise our capital structure. The Board believes that our current dividend payout ratio of 65% appropriately balances the distribution of profit to shareholders, the repayment of debt and the reinvestment of earnings for future growth. The total dividend paid relating to FY19 was 142 cents per share, up 10 cents per share on the prior year.

In closing, the Board remains focused on building long term shareholder value. For the record, since JB Hi-Fi Limited listed in October 2003:

- the share price compound annual growth rate is 20.7% to 22 October 2019, compared to 4.5% on the ASX 200 Accumulation Index over the same period;
- the earnings per share compound annual growth rate is 20.5%¹; and
- the dividend per share (fully franked) compound annual growth rate is 22.0%.

More recently, over the past five years:

- the share price compound annual growth rate is 18.6% to 22 October 2019, compared to 4.4% on the ASX 200 Accumulation Index over the same period;
- the earnings per share compound annual growth rate is 11.4%¹; and
- the dividend per share (fully franked) compound annual growth rate is 11.1%.

I would like to take this opportunity to thank my fellow directors, the executive and particularly our store and support teams for their unwavering commitment to the ongoing prosperity of your company and its shareholders.

I now invite Richard to address the meeting on the operational result.

¹ In accordance with AASB 133, the comparative earnings per share calculations have been restated to reflect the bonus element of the entitlement offer associated with the acquisition of The Good Guys in November 2016.

Group CEO's Address

Thank you Greg and good morning ladies and gentlemen.

As we have said before, retailing is a dynamic and exciting industry and JB HI-FI and The Good Guys are market leaders in their respective sectors. The core of our proposition has always been, and will always remain, our unwavering focus on our customer. We are passionate about bringing our customers the biggest brands at the best prices and our 12,500 dedicated and knowledgeable team members across Australia and New Zealand work hard to delight our customers every day.

We are proud of the role we play in supporting the communities we operate in, be it by creating new jobs, investing in new and upgraded stores, team training and development, or various cause programs – the most important being our workplace giving programs.

The Group's workplace giving programs enable our directors, executives and employees to donate to registered charitable organisations through our payroll system. The Group matches these regular employee contributions dollar for dollar, effectively doubling the financial benefit to our community partners. Each week over 8,500 of our team members give to the program, which makes it one of the most successful workplace giving programs in Australia. Over \$3.0 million was raised in FY19 and in the 10 years since its inception the Group is proud to have raised more than \$17.5 million. When you include one-off campaigns, such as our air instrument and our recent Great Mates campaigns, the Group has raised over \$20.5 million for our charity partners.

FY19 Results

Turning to the FY19 results, as Greg mentioned, FY19 was another solid year for JB Hi-Fi Limited and its subsidiaries (the "Group"). The Group achieved sales of \$7.1 billion, up 3.5% on the prior year. EBIT was up 6.4% to \$372.8 million and NPAT was up 7.1% to \$249.8 million. Earnings per share was up 7.1% to 217.4 cents per share and the total dividend for FY19 was up 10 cents per share to 142 cents per share. The Group had 315 stores across Australia and New Zealand as at 30 June.

JB HI-FI Australia total sales grew 4.1% to \$4.73 billion, with comparable sales up 2.8%. Online sales grew 23.0% to \$258.0 million or 5.5% of total sales, as the Online offer continued to evolve. JB Hi-Fi Solutions recorded double digit sales growth and remains on track to deliver on its longer-term aspirational sales target of approximately \$500 million per annum.

JB HI-FI Australia gross profit increased by 3.9% to \$1.05 billion resulting in a gross margin of 22.1%. CODB was 14.9%, up 7 bps on the prior year. Total operating costs remained well controlled as the business managed costs in line with sales and continued to focus on customer service, invest in strategic initiatives and manage increased volumes through the store network. The business's low CODB and high sales per square metre remains a competitive advantage and is maintained through our continued focus on productivity and minimising unnecessary expenditure.

Sales growth, combined with cost control and lower depreciation as the business managed its investment in the store network, drove solid EBIT growth. EBIT was up 3.2% to \$301.7 million with EBIT margin down 6 bps at 6.4%.

JB HI-FI New Zealand total sales were up 2.0% to NZD236.2 million, with comparable sales up 8.2%. Online sales grew 38.3% to NZD13.3 million or 5.6% of total sales as the business benefited from the improved online platform. Gross margin was 17.3%, down 37 bps on the prior year, and CODB was 16.7%, down 57 bps on the prior year. EBIT was (NZD1.9 million), up NZD1.0 million or 34.3%.

The Good Guys sales grew 2.2% to \$2.15 billion, with comparable sales up 0.9%. Online sales grew 3.7% to \$130.9 million or 6.1% of total sales, with strong sales on The Good Guys website partially offset by a decline in third party marketplace sales.

Gross profit was \$442.7 million with gross margin up 33 bps to 20.6%. 2HY19 gross margin was up 88 bps as the business benefited from initiatives put in place over the last twelve months and cycled strong price competition in the prior year.

Sales growth, combined with gross margin expansion and lower depreciation as significant pre-acquisition IT investment is now fully amortised, drove strong EBIT growth. EBIT was up 19.8% to \$72.9 million with EBIT margin up 50 bps to 3.4%.

The Group balance sheet continues to grow in strength with relatively low financial and operating leverage, evidenced by our solid fixed charges cover of 3.0 times, gearing of 1.0 and interest cover of 26.1 times.

FY20 Trading Update

In regards to FY20 trading, we have today provided a sales update for Q1 and reaffirmed our previously announced FY20 sales guidance.

For the period 1 July 2019 to 30 September 2019:

- Total sales growth for JB HI-FI Australia was 4.7% (pcp: 5.3%), with comparable sales growth of 3.7% (pcp: 3.4%);
- Total sales growth for JB HI-FI New Zealand was 3.8% (pcp: 4.0%), with comparable sales growth of 3.8% (pcp: 9.8%); and
- Total sales growth for The Good Guys was -0.5% (pcp: 2.3%), with comparable sales growth of -1.8% (pcp: 1.0%).

In FY20 the Company expects total group sales to be circa \$7.25 billion, comprising:

- JB HI-FI Australia \$4.84 billion;
- JB HI-FI New Zealand (NZD) \$0.24 billion; and
- The Good Guys \$2.18 billion.

In closing, in JB HI-FI and The Good Guys, we believe we have two unique and relevant brands, particularly in the eyes of our customers. With a customer focused business model built on a diverse product offering, deep relationships with our suppliers, a high quality multichannel offer and exceptional customer service, we are confident we will maintain our market leading competitive position.

I look forward to another exciting and successful year in FY20.

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