

## COMPANY ANNOUNCEMENT

27 October 2016

### CEO's Address 2016 Annual General Meeting

Thank you Greg and good morning ladies and gentlemen.

As Greg mentioned, FY16 was a record year for JB HI-FI. We achieved sales of \$3.95 billion, with total sales growth of 8.3% and comparable sales growth of 5.4%.

Sales momentum was solid throughout the year. We were particularly pleased with how we cycled the strong finish to the prior year, with good sales driven by tax time buying.

Gross profit increased 8.4%, with gross margin improving three basis points to 21.9%, which was pleasing given the change in our sales mix. Total operating costs remained well controlled and were in line with our expectations. We maintained our low cost of doing business through continued focus on productivity and minimising indirect expenditure.

At 15.2%, our low cost of doing business continues to be a competitive advantage and remains lower than our major listed competitors. Store wages remained well controlled during FY16 as we invested in our HOME store rollout and continued to deliver the high standard of customer service that JB HI-FI is known for.

Net profit after tax in FY16 was up 11.5% to \$152.2m, earnings per share was up 11.5% to 153.8 cents per share and the total dividend for FY16 was up 10 cents per share on the prior year to 100.0 cents per share. The balance sheet continues to grow in strength with relatively low financial and operating leverage, evidenced by our solid fixed charges cover of 3.5 times, gearing of 0.4 and interest cover of 57.3 times.

JB HI-FI has the ability to bring brands to life and create engagement in categories, both in store and out of store. We have a reputation for taking the deal, price leadership, distinctive brand personality and a low cost operating model which underpins our competitive pricing.

Our stores have relatively high sales per square metre, when compared to many local competitors and comparable international businesses. They are located in high foot traffic precincts which allow both convenient access for customers and maximise impulse traffic. At the end of FY16 we had 194 stores in Australia and New Zealand, with nine new stores opened during the year and two stores closed. During FY17 we expect to open seven new stores and we maintain our stated target of 214 JB HI-FI stores across Australia and New Zealand.

We continue to both review our existing store portfolio and to apply stringent store selection criteria to potential new sites to ensure that they offer JB HI-FI a high level of foot traffic and convenient access for customers. This considered approach to our existing and new store locations means stores should continue to deliver comfortably in excess of their cost of capital.

During FY16, we signed a 6.5 year cooperation agreement with Heinemann Tax and Duty Free to be the exclusive technology partner at Sydney International Airport. We commenced trading on 1 April 2016 and results to date are in line with expectations. The Airport store provides an exciting opportunity to trial and extend the JB HI-FI model outside of our traditional store format.

JB HI-FI Solutions recorded double digit sales and earnings growth in FY16 and remains on track to deliver its longer term aspirational sales target of approximately \$500 million per annum, through both organic growth and strategic acquisitions. JB HI-FI Solutions is a key driver of our future growth. The combination of our product and service offering, along with our extensive store distribution network, continues to resonate with our clients.

Online sales continue to grow, up 35.8% in FY16, and represent approximately 3.0% of total sales. Unique visitors to JB HI-FI's websites during FY16 averaged 1.3 million per week. We continue to leverage the

benefits of a strong online presence combined with our convenient store locations and remain focused on building a great customer experience online. We are pleased with the progress made in FY16.

We continue to develop our low cost, fit-for-purpose supply chain and logistics solution. As at 30 June 2016 we had facilities operating in Melbourne, Sydney, Brisbane, Perth, Newcastle and Auckland. In other states and regional centres where stand-alone facilities are not currently economic, the rollout allows for expanded back-of-house storage areas.

JB HI-FI's workplace giving program, established in 2008 and known as Helping Hands, enables JB HI-FI directors, executives and employees to donate to registered charitable organisations. JB HI-FI matches dollar for dollar regular employee contributions through its payroll system, effectively doubling the financial benefit to our community partners. Workplace giving programs have proved to be a very effective way for employers and employees to join together to support the community. Each week, nearly 5,000 or 67% of our staff give to the program which, as recognised by the Australian Charities Fund, makes it one of the most successful workplace giving programs in Australia and New Zealand.

Through the combined giving of JB HI-FI and its employees, we believe we make a real difference to the charities in the program. In June this year we celebrated an amazing milestone, having raised \$10 million in Australia for our charity partners since Helping Hands was launched. In total, including one-off campaigns since we launched Helping Hands, we have raised \$10.8 million for our charity partners across Australia and New Zealand.

JB HI-FI sales update:

- Sales for the first quarter of FY17 were in line with expectations with total sales up 12.4% and comparable sales up 8.3%;
- We reaffirm our FY17 JB HI-FI sales guidance of total sales of circa \$4.25 billion<sup>1</sup>.

The key success drivers of JB HI-FI continue to be, having the biggest range and the lowest prices, supported by talented and enthusiastic staff.

As Greg noted earlier, on 13 September 2016 JB HI-FI entered into a binding agreement to acquire The Good Guys. Our objective is to complete the acquisition of The Good Guys on 27 November, subject to the relevant completion conditions being met. If these are not met by that time then completion will take place in early 2017.

We have commenced integration planning while remaining focused on Christmas trading. We are pleased with the progress made to date and as part of our integration planning we have considered the necessary resources to support the expanded group. Further to my appointment as Group CEO, Cameron Trainor, currently JB HI-FI Merchandising Director, will be appointed CEO of JB HI-FI and Michael Ford will continue as CEO of The Good Guys. I look forward to working closely with Cameron and Michael.

I would like to echo Greg's comments on the retirement of Gary Levin. Gary has been a director throughout my time at JB HI-FI and I want to recognise his support and guidance over many years. I also take the opportunity on behalf of the management team to welcome Stephen to JB HI-FI.

I look forward to another exciting and successful year in FY17.

<sup>1</sup> Sales guidance is for JB HI-FI only (i.e. does not include The Good Guys).