

COMPANY ANNOUNCEMENT

25 October 2018

Group CEO's Address¹ 2018 Annual General Meeting

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 we work hard to achieve that and delight our customers every day.

The Group had 311 stores in Australia and New Zealand at 30 June 2018, comprising 103 The Good Guys stores, 193 JB HI-FI Australia and 15 JB HI-FI New Zealand stores. In FY18, eight new JB HI-FI Australia stores and two The Good Guys stores were opened, and one The Good Guys store and one JB HI-FI New Zealand store were closed. 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 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.

We have deep relationships with our suppliers, both locally and globally. To ensure that we continue to build on these relationships across the Group, in August 2018 we appointed Cameron Trainor to the newly created position of Managing Director Group Merchandise. In this role Cameron will have overall responsibility for the strategic direction of the merchandise function across the entire Group.

We have consistently referenced our low cost of doing business as a competitive advantage and a key enabler to maintaining our price leadership. This, coupled with our high sales per square metre, drives productivity that is critical to operating our sustainable retail business model.

At the heart of each business are our approximately 12,200 dedicated and knowledgeable team members who seek every day to delight our customers. Our people are our number one asset and our most important competitive advantage.

Turning to the FY18 results, as Greg mentioned, FY18 was another solid year for JB Hi-Fi Limited and its subsidiaries (the "Group"). The Group achieved sales of \$6.9 billion, up 21.8% on the prior year and EBIT of \$350.6 million, up 14.5% on the prior year. Group NPAT was \$233.2 million, up 12.3% on Underlying NPAT in the prior year and up 35.3% on Statutory NPAT in the prior year. Earnings per share was up 9.2% to 203.1 cents per share and the total dividend for FY18 was up 14 cents per share on the prior year to 132 cents per share.

JB HI-FI Australia sales grew 9.4% to \$4.54 billion, with comparable sales up 6.2%. Online sales grew 32.1% to \$209.9 million or 4.6% of total sales, as the Online offer continues to improve. JB HI-FI Solutions recorded strong 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 9.1% to \$1.0 billion resulting in a gross margin of 22.2%. Cost of Doing Business was 14.8%, down 14 bps on the prior year. Total operating costs were in line with our expectations and remained well controlled as we managed increased volumes through the store network driven by new products, Click and Collect, Online and Commercial order fulfilment. The business's low CODB remains a competitive advantage and is maintained through our continued focus on productivity and minimising unnecessary expenditure.

Strong sales growth, combined with operating cost leverage, drove strong earnings growth. EBIT was up 11.4% on the prior year to \$292.3 million while EBIT margin was up 11 bps at 6.4%.

¹ Unless otherwise stated, all FY17 results and references to growth on the pcp disclosed in this address are underlying results which exclude transaction fees and implementation costs totaling \$22.4m associated with the acquisition of The Good Guys in November 2016 and \$15.8m of fixed asset and goodwill impairments in New Zealand.

JB HI-FI New Zealand total sales were down 1.1% to NZD231.5 million, with comparable sales up 2.4%. Following the launch of the new website in August 2017, Online sales in New Zealand grew 96.3% to NZD9.6 million or 4.1% of total sales. Gross margin was down 49 bps on the prior year at 17.7%.

We continue to reposition the New Zealand business as part of our strategy to improve performance. During FY18 we closed one store and exited Whitegoods (JB HI-FI HOME), rebranding the stores to JB HI-FI.

We have recently appointed Cherie Kerrison to the role of Managing Director, New Zealand. She joins us from The Appliance Shed where she was an Owner and General Manager responsible for all facets of that business. Cherie has strong supplier relationships and a proven track record in building successful teams. Cherie will bring a wealth of strategic and operational experience to our business along with a proven track record in the New Zealand retail market.

The Good Guys total sales for the twelve months to 30 June 2018 were \$2.10 billion. The Good Guys was acquired on 28 November 2016 and accordingly for FY17 we consolidated approximately seven months' sales. As a result of a full year of ownership in FY18, sales on a statutory basis were up 67.0%. For comparative purposes for the same twelve months, total sales were up 1.5% with comparable sales up 0.9%. Online sales for FY18 were up 7.4% to \$126.8 million that is 6.0% of total sales.

The Good Guys gross profit was \$426.1 million with gross margin at 20.3%, down on the prior year primarily as a result of heightened price competition in 2HY18. CODB was 16.6%, with operating costs in line with expectations and store wages well controlled. EBIT was \$60.9 million.

The Group balance sheet continues to grow in strength with relatively low financial and operating leverage, evidenced by our solid fixed charges cover of 2.9 times, gearing of 1.1 and interest cover of 21.1 times.

We are proud of the role we play in supporting the communities we operate in, be it 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 dollar for dollar these regular employee contributions, 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. Through the combined giving of the Group and its employees, we believe we make a real difference to the charities in the program.

The JB HI-FI business' workplace giving program was established in 2008 and is known as Helping Hands. In November 2016 and November 2017, the Helping Hands program was awarded Best Overall Program and Most Innovative Charity/Employer Partnership at the Workplace Giving Awards.

Each week over 6,200 or 81% of the JB HI-FI Australia employees give to the program, which makes it one of the most successful workplace giving programs in Australia. Over \$2.4 million has been raised in FY18 and, since its inception, the JB HI-FI business and its employees are proud to have raised more than \$13.7 million.

The Helping Hands program was launched in New Zealand in May 2012 and involves over 280 employees (approximately 60% of JB HI-FI New Zealand employees) each making weekly contributions. Over \$94,000 was raised in FY18 and, since its inception, over \$400,000 has been raised.

The Good Guys workplace giving program was launched in July 2017 and is known as The Good Guys Doing Good. In its inaugural year, the program has donated approximately \$0.4 million to 14 national charity partners. Participation in the program as at 30 June 2018 is 51.6% with a goal to reach 70% by the end of 2019.

In regards to FY19 trading, we have today provided a sales update for Q1 and reaffirmed our previously announced FY19 sales guidance of total sales of circa \$7.1 billion. In summary, for the period 1 July 2018 to 30 September 2018:

- Total sales growth for JB HI-FI Australia was 5.3%, with comparable sales growth of 3.4%;
- Total sales growth for JB HI-FI New Zealand was 4.0%, with comparable sales growth of 9.8%; and
- Total sales growth for The Good Guys was 2.3%, with comparable sales growth of 1.0%.

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, flexible and dual branded business model built on a diverse product offering, the best brands at low prices, exceptional customer service and a high quality multichannel offer, we are confident we will maintain our market leading competitive position.

I look forward to another exciting and successful year in FY19.

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