

COMPANY ANNOUNCEMENT

29 October 2015

CEO's Address 2015 Annual General Meeting

Thank you Greg and good morning ladies and gentlemen.

As Greg mentioned, FY15 was a record year for JB HI-FI. We achieved sales of \$3.65 billion, with total sales growth of 4.8% and comparable sales growth of 2.9%. Of particular note was how our sales and earnings momentum grew through the financial year. Trading in June was particularly strong, as we cycled a soft trading period in the prior year and enjoyed the benefits of solid sales growth assisted by the small business tax incentives.

Gross margin improved 16 basis points to 21.9% driven by a combination of sales mix and improved buying terms. Total operating costs were in line with our expectations as we maintained our low cost of doing business through continued focus on productivity and minimising indirect expenditure. At 15.3%, this continues to be a competitive advantage and remains lower than our major listed competitors. Store wages remained well controlled during FY15 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 FY15 was up 6.4% to \$136.5m, earnings per share was up 7.4% to 137.9 cents per share and the total dividend for FY15 was up 7.1% on the prior year to 90.0 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 3.4 times, gearing of 0.6 and interest cover of 33.9 times. In June 2015, the Group renewed its term debt facility of \$200.0 million until June 2018.

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 FY15 we had 187 stores in Australia and New Zealand, with five new stores opened during the year. During FY16 we expect to open 7-8 new stores and we maintain our stated target of 214 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.

As at 30 June 2015 we had 43 JB HI-FI HOME stores and are currently targeting a total of 75 JB HI-FI HOME stores across Australia and New Zealand. Each new JB HI-FI HOME store contributes to growing our customer awareness, market share and supplier support. This, combined with our ongoing investment in store wages, staff training and supply chain, places us in a good position as we continue with our expansion.

In addition to our HOME store roll-out, we commenced introducing small appliances into existing JB HI-FI stores during the last quarter of FY15. We see the rollout of small appliances to our existing store network as a natural progression of our proven home appliances strategy. These stores will have their layout reconfigured and will remain branded as JB HI-FI. We believe that small appliances are particularly suited to our shopping centre locations and expect to introduce them to 22 existing JB HI-FI stores during the first half of FY16.

The home appliances market in Australia is circa \$4.6 billion, larger than many of the other categories JB HI-FI operates in. By leveraging our strong heritage in innovation and technology, we see our continued expansion into home appliances and ultimately the connected home as a significant opportunity for JB HI-FI in the future.

Our online sales continue to grow, up 16.9% in FY15, and represent approximately 2.4% of total FY15 sales. The JB HI-FI websites remain a key point of contact with our customers with an average of 1.2 million unique visitations per week in FY15. There are many opportunities to improve our websites and this is a focus as we move into 2016.

In July 2015 we rebranded our commercial and education business as JB HI-FI Solutions, in line with our plan to provide an integrated offer of both products and services to business, government and education clients across Australia. With an aggressive recruitment plan and an expansion of our product and services offer in FY16, we see JB HI-FI Solutions as a key driver of our future growth. We remain on track to deliver on our longer term aspirational sales target for the Solutions business of approximately \$500 million per annum, through both organic growth and strategic acquisitions.

We continue to develop our low cost, fit-for-purpose supply chain and logistics solution, with facilities now operating in Melbourne, Sydney, Brisbane, Perth and Auckland. In other states and regional centres where stand-alone facilities are not currently economic, the HOME 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 our 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. With approximately 65% of our employees contributing to Helping Hands, we believe the combined giving of JB HI-FI and its employees makes a real difference to the charities in the program. In FY15 almost \$1.7 million was raised and, since its inception, JB HI-FI and its employees are proud to have raised more than \$7.4 million.

The Helping Hands program has driven the placement of "Change for Change" boxes in all stores across Australia from 2010 and in New Zealand since 2012. All donations collected are shared evenly amongst JB HI-FI's charity partners. In FY15 over \$50,000 has been collected in Australia and, since inception, the program has raised over \$430,000. In New Zealand approximately \$20,000 has been collected since boxes were first introduced into stores.

In FY16 we expect:

- to open 7 - 8 new stores;
- to convert 13 - 16 existing stores to JB HI-FI HOME;
- to introduce small appliances to 22 existing stores in the first half of FY16; and
- capital expenditure to be in the range of \$50m to \$55m.

Recent trading:

- sales for the first quarter were in line with expectations with total sales up 5.3% and comparable sales up 3.7%;
- we expect the market to remain competitive as retailers drive for market share in the lead up to Christmas; and
- we maintain our guidance for FY16 total sales of circa \$3.85 billion.

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.

I would like to echo Greg's comments on the retirement of Jim King. Jim has been a director for much of my time at JB HI-FI and our time as a listed company. I want to recognise his support and guidance over many years. I also take the opportunity on behalf of the management team to welcome Wai to JB HI-FI.

I look forward to another exciting and successful year in FY16.