



Shape-shifting box-mover coping well with change

Company/ASX Code	JB Hi-Fi Group/JBH
AGM date	Thursday 25 October 2018
Time and location	Computershare Conference Centre, Yarra Falls, 452 Johnston St Abbotsford
Registry	Computershare
Webcast	No
Poll or show of hands	TBD, probably a Poll on all items
Monitor	Mike Robey, assisted by John Whittington
Pre AGM Meeting?	Yes, with Chair Greg Richards and Company Secretary, Doug Smith

Item 1	Financial and other reports
ASA Vote	No vote required

Summary of ASA Position

Financial performance including dividends and shareholder returns

During the course of 2016 JB Hi-Fi acquired The Good Guys (an electrical appliances retailer) and the past financial year (FY) was the first full year of reporting for the combined Group. The JB Hi-Fi segment performed well with growth of 6.2% on the previous year to \$4.54B, which is the major portion of the Group sales of \$7.1B. The Good Guys achieved only 0.9% growth to \$2.1B on the back of a slowing domestic housing market. Both businesses grew their online sales but these are still modest, at around 5%. Eight new JB stores opened in Australia the course of the FY and one closed in NZ, where competition with the domestic NZ competitor has been fierce. The Good Guys saw the opening of two new stores and the closing on one. Thus far the online threat from Amazon has proved to be modest, but the JB Group is building out its online offering in order to compete in that space.

The share price has been up and down and settled slightly lower at the end of the reporting period. Dividends were higher by 14c per share to \$1.32 (11.9%) and earnings per share up 9.2% to \$2.03. Average shareholder return for the year has been 12.5%

JB has demonstrated an ability to find new attractive electrical and electronic product categories to replace those which are at the end of their marketing cycle and thus maintain growth. They are the major retailer of consumer drones, a market which is still at the early adopter stage, and they

are well positioned to enjoy future growth of this new category of consumer electronics. The Good Guys is however more exposed to the domestic housing market, which is experiencing a slowdown and sales growth, although positive, is sluggish. The much smaller NZ JB Hi-Fi business is performing poorly and is currently earnings before interest tax (EBIT) margin negative (-1.24%). It is a minor player in a market dominated by a domestic iconic company The Warehouse Group which enjoys advantages of both scale and brand in NZ.

Key Board or senior management changes

One new position of MD Group Merchandise was created during the year, filled by Cameron Trainor.

Summary

(As at FYE)	2018	2017	2016	2015
NPAT (\$m)	233	172	152	136
UPAT (\$m)	233	208	152	136
Share price (\$)	22.52	23.71	23.81	19.24
Dividend (cents)	132	118	100	90
TSR (%)	1.5	2.1	29.3	11.9
EPS (cents)	203	154	154	138
CEO total remuneration, actual (\$m)	4.990	4.132	3.071	

For 2018 the CEO's total actual remuneration was **59 times** the Australian Full time Adult Average Weekly Total Earnings (based on [November 2017 / May 2018] data from the Australian Bureau of Statistics). A table of actual remuneration was not disclosed by the company.

Item 2	Remuneration Report
ASA Vote	For

Summary of ASA Position

The remuneration report was difficult to interpret, due in part to the overlay of a number of years of changes of remuneration structure, the use of fair value in past years and the unwillingness of the company to provide an accurate take home pay table for the past few years. It is clear however that JB Hi-Fi is attempting to accommodate many of the guidelines from the ASA into its remuneration structure, and this year introduced ASA's preferred short-term incentive (STI) of cash and deferred shares, and also completed a full review of remuneration, due to be

implemented in 2019. For this reason, although it is still not fully compliant with ASA guidelines we recommend accepting the remuneration report

The CEO remuneration structure in 2018 of 1/3rd fixed, 1/3rd STI and 1/3rd long-term incentive (LTI) comprises:

- a) Fixed remuneration of \$1.246M plus super and car allowance of \$53K , i.e. \$1.3M in total
- b) STI comprising (for the CEO) a maximum of \$1.3M, 80% paid in cash and 20% in shares, deferred for 1 year. The hurdle for this is EBIT growth of 123%, with maximum paid for 134% EBIT growth. In 2018, despite good business results overall, only 71% of the maximum STI was paid to the CEO, in large part due to the poorer than target performance of JB Hi-Fi New Zealand and The Good Guys businesses. The key management personnel (KMP) remuneration followed the CEO but with each of the five business KMPs were measured against their Business Unit EBIT growth as well as the Group EBIT growth, which nicely aligns their targets to the overall business growth. STI payouts ranged from 60% to 80%.
- c) LTI comprising zero exercise price share options to a maximum of \$1.3M (for the CEO), again 100% of fixed. The key hurdle for this is earnings per share (EPS) growth of between 5 and 10% and they extend to 4 years. During the 2018 year, 112,629 shares vested for the CEO at an exercise price of \$24.83, amounting to \$2.8M and was the outcome of a number of years of very good growth.

Fixed remuneration of CEO and KMP's increased between 0 and 14% after benchmarking the increased size and complexity of the business after the absorption of The Good Guys. STI maximum opportunity also increased to 100% for the CEO and 75% for the KMP's.

The Chair's fees also increased by 8% owing to the increase in company size and complexity.

Item 3a	Re-election of Mr Richard Uechtritz as a Director
ASA Vote	For

Summary of ASA Position

Mr Uechtritz has a long association with JB Hi-Fi . He was CEO between 2000 and 2010 and a consultant between 2010 and 2013. In April 2011 he joined the Board as a non-executive Director. Because of this long association he has a deep understanding of the business environment in which JB Hi-Fi operates and is well positioned to support the future growth of the company. He has a substantial shareholding, well in excess of our minimum guideline amount.

We were advised that in the next FY the Directors will be required to hold minimum quantities of shares, as will the senior Executives.

Mr Uechtritz is also a Director of Seven Group Holdings.

JB Hi-Fi has 29% of board members as female so meets the ASA guidelines for gender diversity.

Item 3b	Re-election of Mr Stephen Goddard as a Director
ASA Vote	For

Summary of ASA Position

Mr Goddard has been a Director of JB Hi-Fi since 2016 and has extensive retail experience in Finance and Operational roles with some of the largest retail companies in Australia. He also currently serves as Director of GWA group (a plumbing supplies company) and Accent Group (a retail footwear company) and Nick Scali (a retail furniture company) and thus brings a wide range of contemporary retail experience at senior level to this Board. At present he has a small shareholding in JB Hi-Fi which is less than the ASA minimum guideline, but he has yet to serve long enough to make this a concern.

The individuals (or their associates) involved in the preparation of this voting intention has no shareholding in this company.

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