



Voting Intentions – JB HiFi 2021 AGM

ASX Code	JBH
Meeting Time/Date	10:30am, Thursday 28 October 2021
Type of Meeting	Virtual, https://web.lumiagm.com/312120576
Monitor	Mike Robey assisted by Steve Van Emmerik
Pre AGM Meeting?	Yes, with Chair Stephen Goddard and Company Secretary Doug Smith

Proposed Voting Summary

2a	Re-election of Stephen Goddard as a Director	For
2b	Re-election of Mr Richard Uechritz as a Director	For
2c	Election of Mr Geoff Roberts as a Director	For
2d	Election of Mr Nick Wells as a Director	Against
3	Adoption of Remuneration Report	For
4a	Approval of allocation of restricted shares to CEO, Mr Terry Smart	For
4b	Approval of allocation of restricted shares to Mr Nick Wells	For

Key Financials

	2021	2020	2019	2018	2017
Statutory NPAT (\$m)	506	309	250	233	172
Underlying NPAT (\$m)	506	309	250	233	208
Statutory EPS (cents)	441	235 ¹	215	202	187
Dividend per Share (cents)	287	189	142	132	118
Share Price at End of FY (\$)	50.58	43.03	25.85	22.52	23.71
Statutory CEO Remuneration (\$)	2.350*	3.895	2.627	3.361	3.055
Total Shareholder Return (%)	24.2	73.6	21.7	1.5	2.1

Statutory NPAT and EPS are the audited figure from the financial accounts. Underlying NPAT is (usually) an unaudited figure used in management presentations or commentary. Total Shareholder Return is calculated as the share price change over the year plus the dividend declared during the year, divided by the share price at end of previous year. This may differ from the figure quoted by the company. ¹ A pre-covid, guidance number was used here, to remove the Covid-related jump in sales. * The CEO announced his departure which resulted in the forfeit of any 2021 LTI.

Summary of Historical ASA Issues with the Company

JB HiFi has a long-term incentive scheme (called a VRP) which is tested only once at the end of the financial year which and then pays out over 3 further years, so is in effect a short-term plan with an added 3 year retention component, and contravenes our guidelines. Despite this, due to the Covid-induced inability of the company to set long term targets we voted for this plan last year but

stated we would review this year. There was a significant protest vote (20.4%) against the grant to CEO by other voters because of the same issue.

Review of Board on Governance, Transparency, Fairness to Retail Shareholders

Positives

- The Board has an independent non-executive Chair and majority of independent directors.
- Directors and other key management personnel (KMP) have/are investing at least one year’s worth of base cash fees in company shares, within 3 to 5 years.
- The company meaningfully discloses ESG issues or risks facing business and the processes to manage them. Their sustainability report is comprehensive and an excellent start.

Areas for Improvement

- The Board has only 2 female Directors and has been expanded to 8 with the addition of the CFO Mr Wells. This drops them well below the 30% guideline for gender diversity and at the same time place two of the Executive on the Board, which is unnecessary, since one of the new non-executive director (NED) appointments, Mr Roberts was the former CFO of Seek Ltd.
- There is no skills matrix and given the point above, this is demonstrably needed.

Items for Voting

Item 2a	Re-election of Stephen Goddard as a Director
ASA Vote	For

Stephen was appointed to the Board in August 2016 and became Chairman on 1 July 2020. Stephen is also Chair of the Company’s Remuneration and Nominations Committee and was a member of the Audit and Risk Management Committee until 30 June 2020. He has thus a good grasp of the committee and main Board matters of JB HiFi. His experience is largely in retail having held senior executive positions with some of Australia’s best-known retailers. These include Finance Director and Operations Director for David Jones, founding Managing Director of Officeworks, and various senior management roles with Myer. Stephen is currently a non-executive director and Chair of the Audit and Risk Management Committees of GWA Group Limited, Accent Group Limited and Nick Scali Limited, so does not exceed our workload guidelines. His shareholding amounts to about \$210k, which is lower than our guideline for a chairman, but he has only recently been promoted. In summary his background is tailor-made for JB HiFi, and we endorse his re-election.

Item 2b	Re-election of Mr Richard Uechtritz as a Director
ASA Vote	For

Mr Uechtritz has over 30 years’ experience in retailing. He was co-founder of Australia’s two leading photo chains, Rabbit Photo and Smiths Kodak Express, and was a director of Kodak. Richard led the management buy-in of JB Hi-Fi in July 2000 and was CEO and Managing Director until his resignation in May 2010. He re-joined the Board in April 2011 as a non-executive director. He is also a non-executive director of Seven Group Holdings Limited.

Mr Uechtritz will therefore exceed 12 years of service with the JBH board by the time his re-election term finishes, so at that time we would view that he will no longer be independent. He has adequate shareholding in JB HiFi. We therefore endorse his re-election

Item 2c	Election of Mr Geoff Roberts as a Director
ASA Vote	For

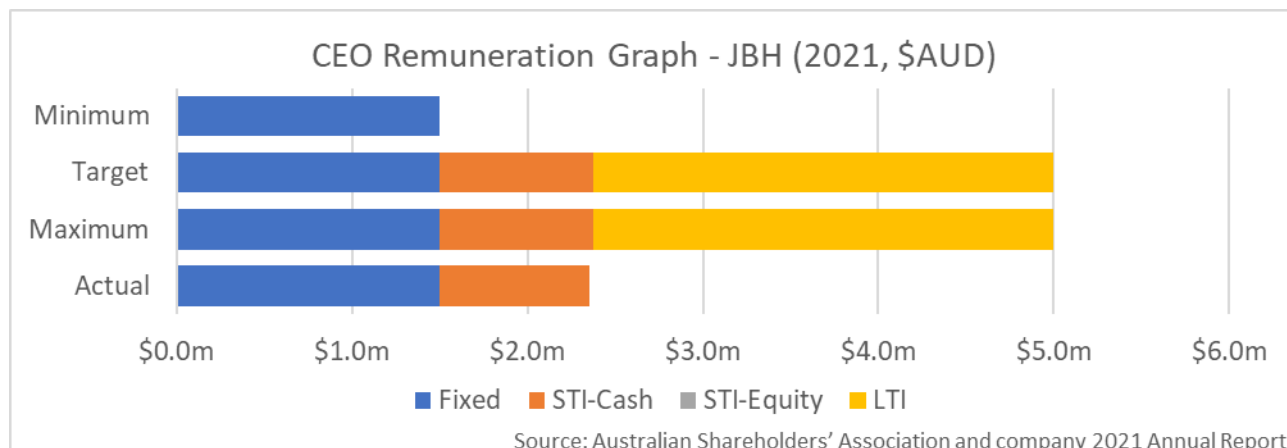
Mr Roberts was appointed to the Board in January 2021. He recently retired as Group CFO of Seek Limited, having joined them in 2015. He has over 35 years’ finance experience, including being a partner at Deloitte, and Group CFO of AXA Asia Pacific Holdings Limited for seven years. Geoff is a Committee (Board) member and Chair of the Finance and Audit Committee of the Melbourne Cricket Club Committee and was formerly a director and Chair of the Audit Committee of AMP Limited. He joined the audit and Risk committee of JB HiFi this year, where his direct audit experience in Deloitte will doubtless add value. He has no shareholding yet in JB, but is a very recent appointment. The ASA supports his appointment to this board.

Item 2d	Election of Mr Nick Wells as a Director
ASA Vote	Against

CFO, Mr Wells, has been nominated for appointment to the board upon the departure of the previous CEO/MD Richard Murray in August 2021, who has resigned to join Mr Solomon Lew in Premier Investments. Mr Wells is currently the CFO of JB HiFi. The ASA sees this as an unnecessary appointment, since at this same AGM, an experienced Finance director, Mr Geoff Roberts will likely be elected to the board. We do not see it as prudent in most circumstances to have a CEO and their CFO on the same board, particularly given the above appointment and the fact that this addition to the board numbers drops JB HiFi below the gender diversity target of 30% women.

For this reason, we will vote against this appointment.

Item 3	Adoption of the remuneration report
ASA Vote	For



Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting.

Positives

- CEO’s actual take-home remuneration, as well as the target and maximum opportunity of each component is clearly disclosed.
- The total quantum of the CEO remuneration package does not reasonably exceed the Godfrey Remuneration Group report benchmarks.

- The quantum of Board fees does not reasonably exceed the Godfrey Remuneration Group report benchmarks.
- At least 50% of CEO’s pay is genuinely at risk.
- All share grants are allocated at face value not fair value.
- Hurdles are based on earnings are based on statutory earnings, though were modified in 2020 to remove the Covid bump in sales, thereby removing windfall gains.
- No termination payments exceed 12 months fixed pay.
- Restricted shares will lapse under “change of control” events.
- Overall, the Remuneration report is readable, transparent, and understandable with a logical relationship between rewards and financial performance and corporate governance, however, see below for significant reservations.

Conclusion on Remuneration

The remuneration plan for JB HiFi executives is largely unchanged from the 2020 FY, where it received 97.25% support, while the grant to CEO was approved with 79.62% "for". It comprises a unified plan called a variable remuneration plan (VRP) which awards a cash component in the first year of 25% of the total, and three equal tranches of restricted shares in the next three successive years. Testing is done at the end of year 1, for all three restricted share components. 75% of the award is subject to a target EPS growth (10% this year), with the balance subject to various strategic measures. The CEO VRP maximum amounts to 233% of Fixed salary, so the end mix of fixed to variable is 30:70 at the maximum. This year, owing to the exceptional performance of the business (see finance table above) the CEO was on track to receive near the maximum, but chose to depart and so forwent all but the cash component of the 2021 VRP, amounting to 24.25% of the VRP.

We remain concerned with the issue of performance rights which test only a single year’s performance and then vests over a further three years, however we understand the difficulty in forecasting retail performance beyond the current year, given the impact of Covid. JB’s have had shop closures on an off over the past year, which have continued in FY2022. We believe that when the turmoil of Covid has passed and forecasting becomes less uncertain, that JBH should redesign their long-term performance incentives with a 4-year performance period, using total shareholder return and a suitable financial metric. Whilst we have some sympathy for the simplicity of this plan, and that it is aligned with growth in share price and thus shareholder value, and the challenge associated with the rapidly changing retail categories which they will continue to have to manage, we believe it is possible to set more conventional long-term incentives which are equally well aligned with shareholders. This does not imply that they have gone soft on targets, since their target setting has all along been measured. On balance then, we support the continuation of this structure for another year.

Item 4a	Approval of allocation of restricted shares to CEO, Mr Terry Smart
ASA Vote	For

See commentary under Remuneration. The same reasoning applies to this award allocation.

Item 4b	Approval of allocation of restricted shares to Mr Nick Wells
ASA Vote	For

See commentary under Remuneration. The same reasoning applies to this award allocation, notwithstanding we think it unnecessary to appoint an existing JB HiFi CFO to the board, especially as there is highly likely to be a newly appointed board member, whom we support, with a long CFO track record.

Monitor Shareholding

The individual(s) (or their associates) involved in the preparation of this voting intention have a shareholding in this company.

ASA Disclaimer

This document has been prepared by the Australian Shareholders Association Limited ABN 40 000 625 669 ("ASA"). It is not a disclosure document; it does not constitute investment or legal advice and it does not take into account any person's particular investment objectives. The statements and information contained in this document are not intended to represent recommendations of a particular course of action to any particular person. Readers should obtain their own independent investment and legal advice in relation to the matters contemplated by this document. To the fullest extent permitted by law, neither ASA nor any of its officers, directors, employees, contractors, agents or related bodies corporate:

- makes any representations, warranties or guarantees (express or implied) as to the accuracy, reliability, completeness or fitness for purpose of any statements or information contained in this document; or*
- shall have any liability (whether in contract, by reason of negligence or negligent misstatement or otherwise) for any statements or information contained in, or omissions from this document; nor for any person's acts or omissions undertaken or made in reliance of any such statements, information or omissions.*

This document may contain forward looking statements. Such statements are predictions only and are subject to uncertainties. Given these uncertainties, readers are cautioned not to place reliance on any such statements. Any such statements speak only to the date of issue of this document and ASA disclaims any obligation to disseminate any updates or revisions to any such statements to reflect changed expectations or circumstances.