

## COMPANY ANNOUNCEMENT

26 October 2017

# CEO's Address<sup>1</sup> 2017 Annual General Meeting

Thank you Greg and good morning ladies and gentlemen.

Retailing is a dynamic and exciting industry and JB Hi-Fi and The Good Guys are market leaders in their respective sectors. At the heart of each business are our approximately 11,800 dedicated and knowledgeable team members across Australia and New Zealand who seek every day to delight our customers. Our people are our number one asset and our most important competitive advantage. 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 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 every day. We have consistently referenced our low cost of doing business as a competitive advantage and a key enabler of 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.

We have deep relationships with our suppliers, both locally and globally. We have engaged and researched internationally and have challenged our current and future strategies, particularly as they relate to new competitors. From price intelligence and benchmarking, delivery and fulfilment capability, digital infrastructure to customer experience, we have undertaken detailed analysis and planning and are confident in our go to market plans.

Turning to FY17 results, as Greg mentioned, FY17 was another record year for JB Hi-Fi Limited and its subsidiaries (the "Group"). The Group achieved sales of \$5.6 billion, up 42.3% on the prior year and underlying EBIT of \$306.3million, up 38.5% on the prior year.

JB Hi-Fi Australia sales grew 10.9% to \$4.15 billion, with comparable sales up 8.6%. Online sales grew 38.4% to \$158.9 million or 3.8% of total sales, reflecting continuous improvement across many aspects of the business's digital assets. JB Hi-Fi Solutions continued to grow 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 11.7% to \$922.8 million resulting in a gross margin of 22.2%. Cost of Doing Business was 15.0%, down 21 bps on the prior year. Total operating costs remained well controlled whilst we invested in service and technology to support our strategy to delight customers whichever channel they choose to engage and shop with us. 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 19.1% on the prior year to \$262.4 million while EBIT margin was up 43 bps at 6.3%.

JB Hi-Fi New Zealand total sales were down 0.3% to NZD234.0 million, with comparable sales down 8.8%. Sales in the prior year were aided by market wide demand for third party content cards. Excluding the impact of these cards (NZD8.4m), total sales in New Zealand were up 3.4%, with comparable sales down 5.3%. Online sales in New Zealand for FY17 grew 5.3% to NZD4.9 million or 2.1% of total sales. We have recently launched a new website and are pleased with its performance to date.

In light of the challenging recent financial performance in New Zealand, fixed asset and goodwill impairments totalling AUD15.8 million were recorded in the statutory FY17 results. This was a non-cash adjustment.

We have completed a review of the New Zealand business and have developed a two year strategy to improve performance.

The Good Guys was acquired on 28 November 2016. For the period under JB Hi-Fi ownership, total sales were up 0.2% to \$1.26 billion with comparable sales down 1.3%. Online sales were \$64.4 million or 5.1% of

<sup>1</sup> Unless otherwise stated, all results disclosed in this report 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.

total sales. Total operating costs were in line with expectations and store wages remained well controlled. Similar to the JB Hi-Fi business, the low CODB remains a competitive advantage and will continue to be a focus moving forward. Earnings for the period under JB Hi-Fi ownership of \$46.4 million was pleasing and in line with the prior year.

Terry Smart was appointed Managing Director of The Good Guys in April 2017. Since Terry's appointment we have made a number of positive changes in both the stores and at support office to position the business for future growth.

Group underlying Net Profit after Tax in FY17 was up 36.5% to \$207.7m and Statutory Net Profit after Tax was up 13.3% to \$172.4 million. Earnings per share was up 22.4%<sup>2</sup> to 186.0 cents per share and the total dividend for FY17 was up 18 cents per share on the prior year to 118.0 cents per share. It was a strong result across all metrics for JB Hi-Fi and The Good Guys performance was in line with expectations.

The balance sheet continues to grow in strength with relatively low financial and operating leverage, evidenced by our solid fixed charges cover of 3.2 times, gearing of 1.6 times and interest cover of 28.8 times. Please be aware all group performance indicators are influenced by the timing of The Good Guys acquisition, with all ratios including earnings from The Good Guys from 28 November to 30 June 2017.

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 achieves both convenient access for customers and maximises impulse traffic.

At the end of FY17, the Group had 303 stores in Australia and New Zealand. In Australia, six new JB Hi-Fi stores were opened and in New Zealand one new JB Hi-Fi store was opened. On acquisition of The Good Guys, we acquired 103 stores. Since acquisition, one new The Good Guys store has been opened and two have been closed. There were 102 The Good Guys stores open as at 30 June 2017.

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 are pleased to confirm that we expect to achieve the upper end of our synergy target of \$15 million - \$20 million. This target is now expected to be fully realised in FY19, one year earlier than originally anticipated, with approximately half of the benefit to be achieved in FY18. We expect the remaining \$2 million - \$4 million of implementation costs to be incurred in the first half of FY18. The synergies will be recorded within earnings in each of the JB Hi-Fi and The Good Guys businesses in FY18 and FY19 and are broadly split equally between both businesses. We will continue to seek efficiencies and drive further synergies. Any upside to our original target will be reinvested in the businesses to strengthen their competitive position and drive future growth.

The JB Hi-Fi business' 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. In November 2016, the Helping Hands program was awarded Best Overall Program and Most Innovative Charity/Employer Partnership at the Workplace Giving Awards. 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 5,800 or 79% of the JB Hi-Fi business' staff give to the program and, as recognised by the Australian Charities Fund, make 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

<sup>2</sup> In accordance with AASB 133, the comparative period (FY16) EPS has been restated for the purpose of calculating EPS Growth to reflect the bonus element of the entitlement offer associated with the acquisition of The Good Guys in November 2016 (Unadjusted FY16 EPS: 153.8)

difference to the charities in the program. In total, including one-off campaigns since we launched Helping Hands, we have raised \$13.6 million for our charity partners across Australia and New Zealand.

The Good Guys business launched its own workplace giving program in July 2017, under which it matches dollar for dollar regular contributions which are made by team members, effectively doubling the benefit to its national charity partners. The Good Guys business also makes a donation for each customer transaction to its national charity partners under its Local Giving Program. Since the establishment of the Local Giving Program in 2006, The Good Guys business has donated more than \$10 million to various charities under the program.

I would also like to take the opportunity on behalf of the management team to welcome Mark Powell to the Group as non-executive director. Mark brings great experience across a range of areas and we look forward to working with him.

**Group sales update:**

- Total sales growth year to date<sup>3</sup> for the JB Hi-Fi business was 6.2% (pcp: 14.3%), with comparable sales growth of 3.2% (pcp: 10.0%);
- Total sales growth year to date<sup>3</sup> for The Good Guys business was 3.1%, with comparable sales growth of 2.4%.

Sales growth remains in line with expectations. Sales growth moderated in September and October as the JB Hi-Fi business cycled changes in the timing of key product releases and elevated comparable sales growth in the pcp. We reaffirm our FY18 Group sales guidance of total sales of circa \$6.8 billion (JB Hi-Fi \$4.65 billion and The Good Guys \$2.15 billion) and expect the market to remain competitive as retailers drive for market share in the lead up to the key Christmas trading period.

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 business model built on diversity of product categories, a globally low cost of doing business and the opportunity to realise meaningful synergies from the strength and scale of the combined Group, we are confident we will maintain our market leading competitive position.

I look forward to another exciting and successful year in FY18.

<sup>3</sup> to 22 October 2017