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Finally off the short list

Company/ASX Code	**JB Hi Fi/ JBH**
AGM date	29 October 2018
Time and location	10:30 am AEDT, virtual, https://web.lumiagm.com/342004634
Registry	Computershare
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Mike Robey
Pre AGM Meeting?	Yes with new Chair Stephen Goddard, Director and Co. Sec Doug Smith

Please note any potential conflict as follows: The individual (or their associates) involved in the preparation of this voting intention have a shareholding in this company.

Item 1	**Consideration of accounts and reports**
ASA Vote	No vote required

Summary of ASA Position

JB Group has had a bumper year in all divisions with the exception of the NZ business. Sales were up 12.5%, gross profit up 11.7%, and cost of doing business (CODB) down 80 basis points to 14.1% in the JB Australian stores and in The Good Guys down 120 basis points to 15.4%. Sales volumes of $5.3b make JBs one of the largest retailers in Australia. JBs has 209 Australian stores under the flagship consumer electronics brand and 105 The Good Guys (TGG) stores, and 14 JB stores in NZ. The 2016 acquisition of The Good Guys, in the retail category of homemaker, is continuing to undergo its JB makeover and is improving in all key metrics. In particular it continues to improve its brand image while reducing the CODB, a key retail operational metric that the JB group asserts is at World best Practice, better than the behemoths in the US and Europe, such as Best Buy and Dixons.

JB's has accelerated its move online directly as a result of the Covid epidemic with about 53% increase in the JB stores and 33% in TGG stores.

Governance and culture

JB has a culture best described as no frills, frugal and focussed. It arose from its early cut-price consumer electronics origins and this has continued to serve it well. Staff are flexible in their work practices and have no need for an Enterprise Bargain. For example, staff adapted to the requirement for Covid-required store cleaning by delaying opening an hour and doing it themselves. The Board has rewarded each frontline staff member with an ex-gratia payment of $1000 to thank them for their extra efforts during Covid.

Financial performance

Sales for the year were $7.92bn, an 11.6% year-on-year improvement. Earnings before Interest and Tax was $483m, up 30.5% and Net Profit after Tax (NPAT) was $308.7m, up 33%. Dividends were $1.89, up 33%. These are big increases in a big business and speak to their forensic attention to costs. They were assisted by the increased demand brought on by lockdowns, which helped the business significantly reduce its working capital and increase stock turns, whilst juggling customer issues associated with stock outs and delivery delays. JBs last year was one of the most shorted stocks on the ASX, driven by the belief that bricks and mortar retail was dying and would make way for an online world. The shorters have now given up and moved their attention to travel stocks.

Key events

Apart from the dramatic changes brought about by Covid there were no other major changes this year.

Key Board or senior management changes

The long serving Chairman Greg Richards retired at the end of the Financial Year and was replaced by Stephen Goddard, appointed to the Board in 2016. Stephen comes with a strong retail background and a busy workload, being a Director of three non-competing retail related companies. We will keep an eye on this workload to ensure he maintains adequate attention as chair.

The dynamic Wai Tang retired in Feb due to ill health and soon passed away, working literally up until days before she passed.

Melanie Wilson was appointed in June 2020 and is up for re-election at the AGM

ASA focus issues

No issues.

Summary

(As at FYE)	**2020**	**2019**	**2018**	**2017**	**2016**
NPAT ($m)	309	250	233	172	152
UPAT ($m)	309	250	233	208	152
Share price ($)	43.03	25.85	22.52	23.71	23.81
Dividend (cents)	189	142	132	118	100
TSR (%)	73.6	21.7	1.5	2.1	29.3
EPS (cents)	273	217.4	203	154	154
CEO total remuneration, actual ($m)	3.895	2.627	3.361	3.055	3.071

For FY20, the CEO's total actual remuneration was **42 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics).

Item 2a	Re-election of Melanie Wilson as Director
ASA Vote	**For**

Summary of ASA Position

Melanie Wilson MBA, was appointed in June 2020, following the retirement of Wai Tang and comes with a strong background in both retail (Woolworths, BigW, Lovisa among others) and consulting at Bain and Goldman Sachs. She holds Board positions at Baby Bunting, iSelect and Singapore-based EML payments. We believe her background is well suited to JBs. She is not overloaded and we fully support her appointment.

Item 2b	Re-election of Beth Laughton as Director
ASA Vote	**For**

Summary of ASA Position

Beth Laughton comes from an Accounting background and has extensive experience in the financing of mergers and acquisitions, particularly in retail. She was appointed to the JB Hi Fi board in 2011. We believe she is well credentialled for the Board

Item 3	Adoption of Remuneration Report
ASA Vote	**For**

Summary of ASA Position

CEO rem. Framework for FY21	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.375	33.0	1.375	33.0
STI - Cash	0.698	16.8	0.698	16.8
STI - Equity	0.698	16.8	0.698	16.8
LTI	1.396	33.4	1.396	33.4
Total	4.167	100.0%	4.167	100%

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan.

The Executive remuneration plan, called a Variable Reward Plan (VRP) which we voted against in the past year has the following relatively simple structure:

1. The CEO target maximum reward is 33% fixed and 67% variable

2. Variable award is paid as cash 25% in year one (Y1) and 25% restricted shares released in each of years 2 to 4, calculated by volume weighted average price (VWAP) at date of issue. This is tested only once at the end of Y1. The financial hurdle is a (challenging) earnings per share (EPS) growth of greater than 8.1%
3. Shares will be forfeited for bad leavers and are subject to clawback for misdemeanours.
4. There are minimum shareholdings required of all executives, encouraging retention of substantial shareholdings and thus aligned with shareholder interests.

In this financial year the Board took account of the sales bump from Covid and rebased the Earnings per Share target (EPS) from the reported NPAT of $308.7m back to $270m, which was the market guidance given in December prior to the Covid effect. This in effect removed any of the retail tailwinds blown in with Covid.

Whilst the CEO's variable award was still near the maximum at 87%, this downwards discretion did demonstrate a Board that was willing to reduce award payments for results which were not fully due to executive performance. JBs have always stated that two year and beyond EPS measures were finger-in-air, which was the reason for the construction of the current VRP. This year they were self-consistent in scaling back the VRP, due to an abnormally high EPS. Interestingly the non-financial measures, covering diversity, safety and strategic issues and which accounted for 25% of the VRP, were applied with an even firmer hand. The CEO only achieved 78% of the maximum of this component.

In addition, for consistency in the 2021 year, the same reduced market guidance of $270m will used as a base from which the VRP will be calculated.

We voted against the VRP in 2020, since it had only one hurdle in Y1 and paid out for years 2 to 4 with no supplementary hurdles. The experience of this year was that the onset of Covid proved the point the JB Board had made about the difficulty of forecasting future earnings for retail. The Board was also prudent in rebasing the NPAT to ensure fairness in the EPS measure. They pointed out that the coming year is equally uncertain.

So, our current view is that while the structure of the remuneration plan is short term focussed that in fact it suits the current uncertain times for retail and that we will vote for it in the 2021 year. The hard-marking behaviour of the Board in this past year coupled with the requirement for minimum shareholdings by the key management lead us to believe that the management and Board are acting in shareholders interests and that the awards are in practice granted fairly.

We will review these arrangements in the 2022 year, the first of the incoming Chairman.

Item 4	Approval of restricted rights to Executive Director Richard Murray
ASA Vote	**For**

Summary of ASA Position

This resolution is for the award of 36,687 performance rights to Mr Murray, calculated as follows:

- 87% of the maximum award from the 2020 VRP plan
- Based on a 5 day price average at the end of the financial year of $49.93
- Yielding $1.832m

As discussed above we believe this award was arrived at fairly by the application of a firm Board in the interests of shareholders