

JB Hi-Fi AGM – Normalised business conditions

Company/ASX Code	JB Hi-Fi / JBH
AGM time and date	10.30 am Friday, 27 October 2022
Location	RACV City Club, 501 Bourke Street, Melbourne, Victoria
Registry	Computershare
Type of meeting	Hybrid
Monitor	Steve van Emmerik assisted by Mike Robey
Pre-AGM Meeting	Chairman Stephen Goddard and Company secretary Doug Smith

Monitor Shareholding: An individual involved in the preparation of this voting intention has a shareholding in this company.

1. How we intend to vote

No.	Resolution description	
2a	Director re-election Stephen Goddard	For
2b	Director re-election Melanie Wilson	For
2c	Director election Christy Boyce	For
3	Remuneration report	For
4a	Approval of restricted shares to Terry Smart	Against
4b	Approval of restricted shares to Nick Wells	Against

2. Summary of Issues and Voting Intentions for AGM/EGM

- As in past years we note that executive compensation is based on shorter time frames than ASA guidelines. We continue to put forward this view. Notwithstanding this, we understand JB Hi-Fi focus is on yearly sales and that this has not previously resulted in them failing to competently address longer term strategic issues.
- Cost of business is gradually rising due to several factors. Some of these factors are beyond the company's control. In addition, the consumer outlook for their products is generally thought to be challenging. Our pre-AGM meeting with the company suggests they are aware of these factors and have plans in place for longer term success.
- There was a cyber hack of Latitude, a financial services provider that makes loans to JB Hi-Fi customers. While JB Hi-Fi was not directly involved and themselves hold only limited customer data this is unfortunate for all those customers whose data was stolen.

3. Matters Considered

Accounts and reports

(As at FYE)	2023	2022	2021	2020	2019
NPAT (\$m)	525	545	506	302	250
Share price (\$)	43.70	38.46	50.48	43.03	25.85
Dividend (cents)	312	316	287	189	142
Simple TSR (%)	21.8	-17.7	24.2	73.8	21.1
EPS (cents)	480	480	441	263	217
CEO total remuneration, actual (\$m)	4.690	3.939	4.259	3.895	2.627

Simple TSR is calculated by dividing (change in share price plus dividend paid during the year, excluding franking, by the share price at the start of the year.

Governance and culture

There are a majority of independent directors on the board with seven non-executive directors of the nine-director board. ASA considers directors who have been on a board for more than 12 years to no longer be independent. Two directors cross over the 12-year threshold next year, one being the former CEO to 2010, this degree of board independence under ASA guidelines will move closer to the 50% mark next year. A new female director has joined the board since the last AGM and this means the board now meets ASA gender diversity guidelines. This is an issue we have brought up in the past and we are pleased to see progress. Two executive directors are on the board, which is not our preferred structure, but this is not something that they will or can change soon, so we will accept this.

Key events

Continued increase in market share, and strong brand rating by consumers, in a more challenging retail environment than the previous two years. Online shopping reverted back somewhat towards pre COVID levels and in store purchases increased.

Key board or senior management changes

Christy Boyce has been appointed and as a new non-executive director since the last AGM. She has strong credentials working in a consulting capacity for 25 years in Australia and the U.S. for McKinsey Partners and other consultancies with a focus on retailing, online strategy etc. She is also an experienced non-executive director being on the board of CSR and several other companies. She brings appropriate complementary skills to the board and in addition helps diversify the board.

Sustainability/ESG

An improved ESG report and also progress on substantive issues including lower and middle level management gender diversity and decreased power usage and plastic bag usage. JB Hi-Fi work with larger players in the international market in the Responsible Business Alliance on anti-slavery measures in supplier countries. Progress here is not rapid and there are many layers to supplier relationships to negotiate. The company is planning for the likely future need for increased reporting of ESG measures and the audit of these measures.

ASA focus issues (not discussed above or under remuneration report or re-election of directors)

We expect retail shareholders will be treated fairly and equitably in capital raisings. For this reason, we favour PAITREO (pro-rata accelerated, institutional, traded renounceable, entitlement offers) capital raisings. JB Hi-Fi has not raised capital since its PAITREO in 2016.

We expect companies to distribute shareholder communications in accordance with their preferences. We prefer companies to hold shareholder meetings using a hybrid format, allowing physical and online participation. JB Hi-Fi does hold hybrid shareholder meetings.

4. Rationale for Voting Intentions

Resolutions 2a, 2b, 2c Election or re-election of Directors

It can be difficult for retail shareholders to assess the skills of directors and therefore ASA advocates for the inclusion of a skills matrix in the Annual Report. There is a skills matrix in the Annual Report, but it is very broad and slightly unconvincing given that at least 6 out of 8 directors are said to possess skills in each area of expertise. This skills matrix was put together in house by the Company Secretary. We applaud the inclusion of the skills matrix but feel its current form is not best practice and have put forward an example of a useful skills matrix to JB Hi-Fi.

Resolution 2a – Chairman Stephen Goddard re-election - For

Chairman Stephen Goddard is up for re-election. He has been on the board since 2016 and became chairman in 2020. He has over 30 years of experience in retail with senior roles in David Jones and Myer and was the founding managing director of Officeworks. He is also a non-executive director at Nick Scali and the Accent group. His workload, though substantial, does not exceed our guidelines and his skills and experience are highly relevant to JB Hi-Fi. We support his re-election.

Resolution 2b - Non-Executive Director Melanie Wilson re-election - For

Non-Executive Director Melanie Wilson is up for re-election. She has been on the board since 2020 and is a member of the Audit and Risk Management Committees. She has an MBA and extensive experience in senior roles in global retail brands as well as working for large financial institutions. She is a non-executive director of Baby Bunting and The Property Guru Group (Singapore). Her workload does not exceed our guidelines and her skills and experience are highly relevant to her role. We support her re-election.

Resolution 2c - Non-Executive Director Christy Boyce election - For

Christy Boyce has been appointed as a new non-executive director since last year's AGM. She has strong credentials working in a consulting capacity for 25 years in Australia and the U.S. for McKinsey Partners and other consultancies with a focus on retailing, online strategy etc. She is also an experienced non-executive director being on the board of CSR and several other companies. She brings appropriate complementary skills to the board and in addition helps diversify the board. We support her election.

Resolutions 3 - Remuneration Report – For & 4a and 4b - Grant of shares - Against

The variable reward plan (VRP) is a single “combined” plan which is tested once after the first year and then the Performance Shares are granted in subsequent years as long as the key management personnel (KMP) remained employed, subject to clawback at board discretion for various circumstances. So, this is not really an LTI, with a long-time performance hurdle.

ASA supports the considerable use of shares rather than cash in the incentive payment as a way of aligning KMP with shareholders. We understand that the company has a yearly sales and profitability focus and the practice of remuneration has so far not resulted in unduly excessive payouts or any significant failure in longer term strategic planning. We have heard the company's supporting arguments regarding this unusual form of incentive payment for JB Hi-Fi and will not vote against the remuneration report. This acceptance is partly due to the past strong record of JB Hi-Fi in navigating strategic challenges and its ongoing commitment to continuing to do so. We note JB Hi-Fi's strong record of paying increasing dividends and increasing share price over nearly two decades since listing.

Maximum at risk payments are within ASA guidelines so we support the report. We note that the non-financial (and more strategic) components of the report have a relatively small impact on total VRP payments. However, the overall does not meet our guidelines so we will vote against the grant of shares.

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Appendix 1

Remuneration framework detail

CEO rem. Framework for FY22/23	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.723	32 %
VRP – Cash	0.901	17 %
VRP – Equity	2.703	51 %
LTI	0	%
Total	5.328	100%

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

*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. Some remuneration framework set a maximum opportunity amount, but not all.