

Voting Intentions Report – JB Hi-Fi

Company/ASX Code	JB Hi-Fi/JBH
AGM time and date	10:30 AEDT Thursday, 31 October 2024
Location	RACV City Club 501 Bourke St and online
Registry	Computershare
Type of meeting	Hybrid, voting and questions online, but no voice channel
Monitor	Steve van Emmerik, with Mike Robey
Pre-AGM Meeting	Stephen Goddard (Chair) and Doug Smith (Company Secretary)

Monitor Shareholding: The individual (or their associates) involved in the preparation of this voting intention have no current shareholding in this company.

1. How we intend to vote

No.	Resolution description	
2a	Re-election of Geoff Roberts	Undecided
2b	Re-election of Richard Uechtritz	For
2c	Re-election of Mr Nick Wells as a Director	For
3	Remuneration report	For
4a	Approval of Restricted Shares to Terry Smart	Against
4b	Approval of Restricted Shares to Nick Wells	Against
5	Non-Executive Directors Fee Pool	For

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 resulted in them failing to competently address longer term strategic issues in the past. We note a change from 4 to 5 years as the look back period that JB use assessing growth targets for the Variable Reward Plan (VRP). We encourage JB to extend the period for the vesting of restricted shares earned under the VRP from the current 4 years to 5 years plus. This is to encourage long term alignment with shareholders despite the lack of an LTI.
- JB Hi-Fi has grown market share in retail consumer electronics over many years and there is now less scope for further growth in Australia. New Zealand is a relatively small market,

the opportunity there is limited. Looking to find new areas of growth JB expanded to an adjacency by purchasing the whitegoods and appliance retailer the Good Guys some years ago and has now purchased Melbourne-based kitchen, laundry and bathroom appliance retailer E&S. Numerous ASX companies have run into problems “buying growth” and failing to integrate the newly acquired businesses in a synergistic manner. We note the appointment of Nick Wells to a COO role. This role is said to have a strategic focus, and we trust that this focus will help enable the entire company to grow profitably into the future and avoid the mistakes other companies have made into adjacent business areas.

See [ASA Voting guidelines](#) and [Investment Glossary](#) for definitions.

3. Matters Considered

Accounts and reports

- JB Hi-Fi’s profits reduced on broadly flat revenue as the Covid impacts of working from home etc receded and cost of living pressures hit consumers. Profits did reduce less than consensus which helped drive the share price up despite the lower profit.
- A special dividend of 80 cents was paid out of the larger than normal profits accrued during the Covid impacted years.

Financial performance

(As at FYE)	2024	2023	2022	2021	2020
NPAT (\$m)	439	525	545	506	302
UPAT (\$m)	439	525	545	506	302
Share price (\$)	61.27	43.70	38.46	50.48	43.03
Dividend (cents)	341*	312	316	287	189
Simple TSR (%)	48.0	21.8	-17.7	24.2	73.8
EPS (cents)	401	480	480	441	263
CEO total remuneration, actual (\$m)	5.367	4.690	3.939	4.259	3.895

*includes 80 cps special div. 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

ASA considers directors who have been on a board for more than 12 years to no longer be independent. There are a majority of independent directors on the board and the Chairman is considered independent. 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. We

do not consider Richard Uechtritz to be independent given his past MD role and his period on the board from 2011 and with less than a year break. However, we understand he provides useful corporate history, long-standing business contacts with key suppliers and experience to the business. Beth Laughton plans to rotate off next year as part of board renewal. With the board at 30/70 female/male ratio, we expect the appointment of a female director.

Key events

- E&S was purchased. The arrangement is that 75% of the company is acquired immediately for \$47.8m in cash and a put and call option put in place for the remaining 25% in Sep 2029. E&S is a largely Melbourne based kitchen, laundry and bathroom appliances and goods retailer that is relatively small compared to JB Hi-Fi. JB's intend to take it national, as they have the balance sheet strength to do so.
- Total Shareholder Return (TSR) for the year was an unusually high 48%. This was in the context of a relatively strong stock market with positive reactions to: profits above consensus, the special dividend and the purchase of E&S.
- The ACCC commenced proceedings against the Good Guys over a store promotion program offering credits for the purchase of qualifying products. The case against them is that the credits expired within one or two weeks, which was not clear in the promotion and that customers were signed up to direct marketing without being able to opt out. JBH has advised they will strongly defend their position in court.

Key board or senior management changes

- Nick Wells was appointed to a COO role with a strategic focus.
- David Giansalvo has been appointed to succeed Nick Wells as Group Chief Financial Officer.

Sustainability/ESG

- Steady progress is being made toward the coming climate reporting obligations compliance, which commences January 2025.
- The sustainability report is readable and includes a good level of detail and facts on progress in various areas. There a wide variety of projects underway addressing various issues across: recycling of e-waste, employee wellbeing, charitable giving, emissions, reductions in plastic bag use, reducing materials handling injuries, ethical sourcing policies etc.
- One particular project focuses on battery and e-waste recycling. JB have rolled out drop off points at JB's and the Good Guys to recycle e-waste and report 16 tonnes of recycling to date. Mention is made in the sustainability report of staff encouraging customers to recycle when they purchase electronic products.

4. Rationale for Voting Intentions

Resolution 2a – Re-election of Geoff Roberts - Undecided

Mr. Roberts had a long and successful executive career including time as CFO of Seek where shareholder returns were strong. On a less positive note, he was also a director at AMP over the period 2016-2019 and then retired. During this period, AMP was scrutinized for a range of practices, including the infamous “fees for no service” scandal, where AMP charged customers for financial advice that was never provided. This issue led to criminal investigations and serious reputational damage to AMP. It is difficult to weigh the AMP events against his broader career, but it is a significant event, so we will ask what he has learned from this experience before voting. The chairman stated that in some ways a director who bears the scars of prior such events and who in the following years has learned how to avoid getting their companies into such difficulties is an asset on a board.

Resolution 2b – Re-election of Richard Uechtritz – For

Richard Uechtritz has many years experiences on the board and was the CEO in the early listed days. We do not consider him independent given his lengthy past at JB, but given there is an independent Chair and there is a majority of independent directors this does not preclude us voting for him. We are told he knows the suppliers well and acts in an independent manner. He holds 4812 shares in JBH, which exceeds our skin-in-the-game guidelines. JBH has prospered in periods where he has had both executive and non-executive roles and we therefore intend to vote for.

Resolution 2c – Re-election of Nick Wells – For

For well-established corporate governance reasons, we do not generally support Key Management personnel also being directors. We have made exceptions in the case of JB in the past and continue to do so for two main reasons. Firstly, a very long period of continually improving financial performance in a competitive market that suggests what they do works for them and for their shareholders. Secondly, this board composition has, to our knowledge, lead to no major corporate governance related issues over the past 21 years since their listing on the ASX. Nick has 47,950 JBH shares, held indirectly, so we will vote for his re-election.

Resolution 3 - Remuneration report – For

As in past years we note that executive compensation is based on a single year’s performance but vesting progressively over 4 years, so doesn’t meet our guidelines, since it is not tested at the end of the period. We continue to put forward this view, though the strong performance of JBH over many years adds weight to their position that conventional remuneration structures with 3-to-5-year test periods do not suit their business. Notwithstanding this we understand JB Hi Fi’s focus is on yearly sales and that this has not resulted in them failing to competently address longer term strategic issues in the past. They argue that longer term metrics can be convoluted, impractical and counterproductive given the dynamic state of the retail sector they operate in. i.e. meaningful metrics and targets are difficult for them to use to motivate KMP. We have heard similar stories from ASX-listed companies where the chairman has stated that the senior executives see complex LTIs as a lottery, rather than as a motivator to do the right thing by the

business. We note that there is some support building for a radical simplification of long-term incentives including some of the world's largest fund managers.

Given these stirrings, the prudence which they have shown in granting variable pay (they removed the Covid sales bump from assessing CEO pay, for example) and the proven ability to deliver long term shareholder value by the current approach, we will vote for the remuneration report this year, whilst encouraging them to include 5 year + vesting of the LTI component, instead of progressive vesting over 4 years.

Resolution 4a - Approval of Restricted Shares to Terry Smart – Against

Performance has been strong and remuneration is not unreasonable for a company of JB's size and strong shareholder returns. Our comments on the lack of an LTI and our desire for the VRP to stretch further into the future and be measured at that stage (as outlined above) are issues for the ASA, and therefore we are unable to vote For.

Resolution 4b - Approval of Restricted Shares to Nick Wells – Against

We Note Mr. Wells move to a strategic COO role and the implication that he is trusted with broad strategic responsibilities within the group. Performance has been strong and remuneration is not unreasonable for a company of JB's size and strong shareholder returns. Our comments on the lack of an LTI and our desire for the VRP to stretch further into the future and be measured at that stage (as outlined above) are issues for the ASA, and therefore we are unable to vote For.

Resolution 5 - Non-Executive Directors Fee Pool – For

This resolution proposes an increase in the pool of money to paid to non-executive directors from \$1.5 million p.a. to \$1.675 million p.a. There has been no change in the directors' fees pool for a number of years. This change is not unreasonable given inflation, the size of the company, strong long-term shareholder returns and the director's fees paid by other similar companies. We vote For.

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Appendix 1

Remuneration framework detail

CEO rem. Framework for FY2024	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.803	33.6 %
Variable Reward Plan (VRP) Incentive – Cash	0.891	16.6%
VRP Incentive – Equity	2.673	49.8%
Total	5.367	100%

Equity is vested and received in equal parts in years 2, 3 and 4 after it has been earned.