

JB Hi-Fi Limited



**Half Year Results Presentation
31 December 2009**

8 February 2010

Agenda



1. Performance
2. Historical Performance
3. Trading Update
4. Financial Detail
5. Dividends
6. Store Update
7. Change of CEO
8. Investment Checklist

Richard Uechtritz
CEO

Richard Murray
CFO

1. PERFORMANCE

Strong performance for 6 months to 31 December 2009



	HY09	HY10	Growth
❑ Sales	\$1.26b	\$1.55b	23.2% ↑
❑ Gross Margin	21.4%	21.1%	-26 bps ↓
❑ Cost of Doing Business	13.6%	13.2%	-39 bps ↓
❑ EBIT Margin	7.1%	7.2%	+10 bps ↑
❑ NPAT	\$59.0m	\$76.0m	28.8% ↑
❑ Earnings per share	55.3 cps	70.5 cps	27.4% ↑
❑ Return on Invested Capital	47.6%	49.3%	+1.7% ↑
❑ Interim dividend - fully franked	15.0 cps	33.0 cps*	120.0% ↑

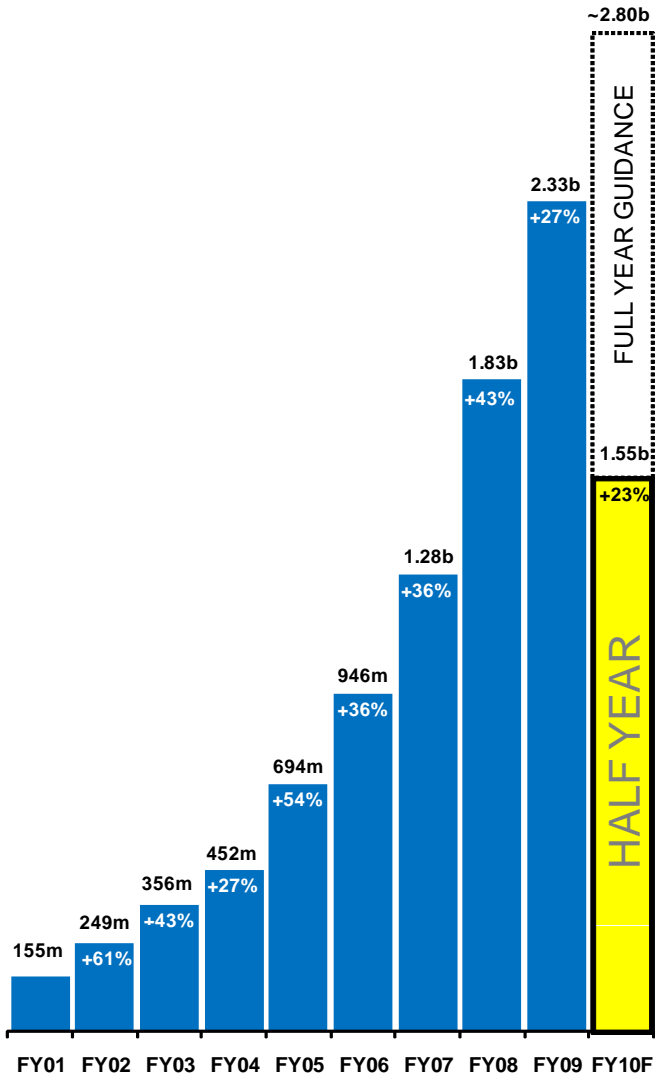
* to be paid 5th March 2010 (record date 17th February 2010).

2. HISTORICAL PERFORMANCE

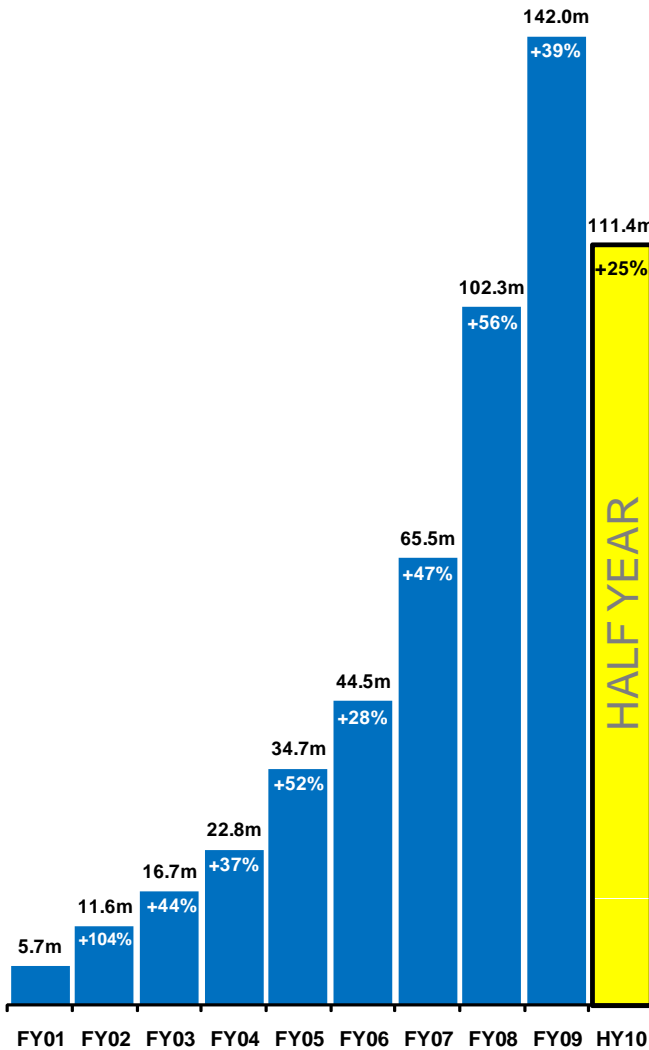
Strong growth in sales & earnings since MBI in July 2000



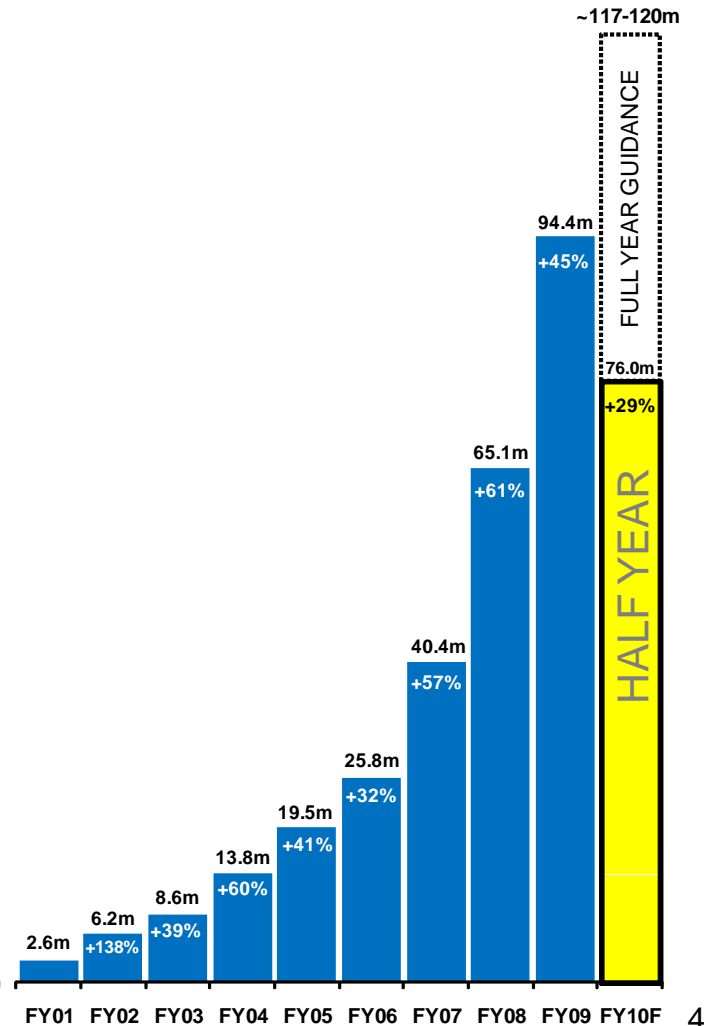
SALES +23%



EBIT +25%



NPAT +29%



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3. TRADING UPDATE



Trading Performance

- Strong result – the company has traded well through what was a challenging and very competitive period for many retailers.
- Consolidated comparable store sales growth for HY10 was 9.9%.
- Consolidated comparable store sales in December were solid at 6.5% despite stimulus package in the previous year.
- The result reinforces the strength and resilience of our unique retail model – augurs well for better times moving forward.
- JB's huge range and every day low price offering in a unique retail environment continues to resonate with customers.
- Home entertainment becoming more of a staple category as consumers keep up with technology.
- Continue to grow our market share as recently opened stores mature, we open new stores, expand our product offering and reduce our prices on the back of increased economies of scale and a continued focus on costs.

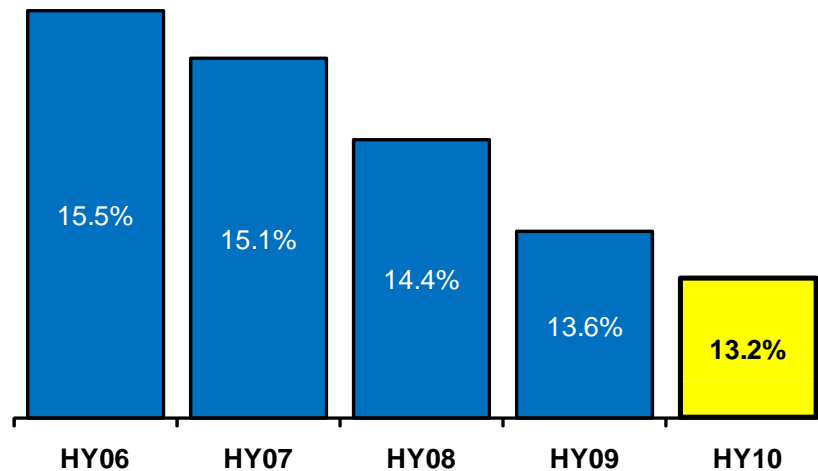
3. TRADING UPDATE....



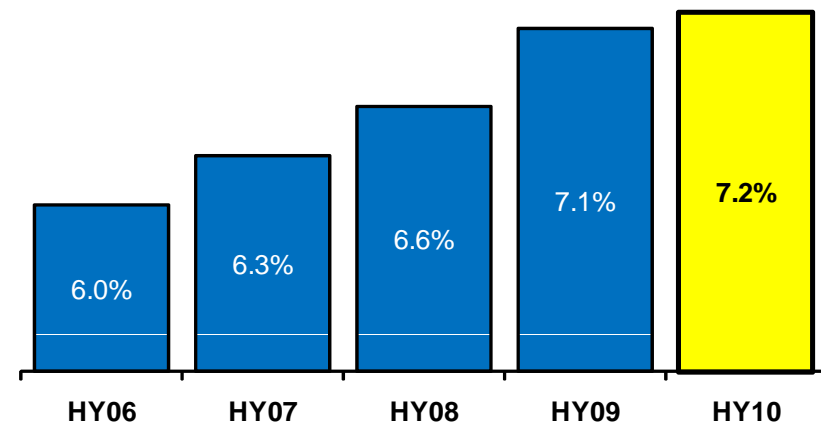
Financial Metrics

- Gross margin at 21.1% (pcp: 21.4%) was pleasing given the tough competitive environment, the growth of lower margin product categories of games and computers and our investment in everyday low prices.
- Cost of doing business was down 39 bps to 13.2% (pcp: 13.6%), driven by our low cost culture, operating leverage, labour productivity and marketing economies of scale.
- Our lower cost of doing business (CODB) has allowed us to manage the impact of product mix on our gross margins, support our every day low pricing philosophy and improve our earnings margin.
- CODB reductions have been achieved whilst we have pursued an aggressive store rollout program, opening 52 new stores in the last 3 years.

Cost of doing business



EBIT Margin



3. TRADING UPDATE....



New Stores

- Opened 15 new JB Hi-Fi stores in Australia during HY10.
- Planning to open circa 7 stores across Australia and New Zealand in 2HY10 (total 22 stores for FY10).

Australia

- Sales grew 23.7% to \$1.5b with comparable store sales up 10.2%.
- Gross margin remained stable at 21.4% (down 19 bps) - pleasing given the growth of lower margin categories and a competitive market place.
- Cost of doing business down 51 bps to 12.9%.

New Zealand

- Sales grew 17.8% to NZ\$95.2m with comparable store sales of 5.8%, impacted by the performance of the H&S stores (JB stores comparable store growth of 12.1%).
- Gross margin was 14.9% (down 196 bps).
- Cost of doing business up 214 bps to 19.7%.
- We have elected to close our 4 remaining H&S stores during this quarter (3 now closed). Refer Appendix II(d) for further discussion.
- We anticipate opening at least 3-4 JB stores in NZ during the 2010 calendar year.
- With the maturation of the 9 recently opened stores and 3-4 new stores, we would anticipate moving to profitability in NZ during FY11.

3. TRADING UPDATE....



Trading Outlook

- We expect FY10 to be another good year of sales and earnings growth.
- January 2010 trading has been solid with comparable sales for the period up 7.2%.
- Gross Margin is currently meeting budget.
- Confident of continued solid growth in most categories and market share gains in all.
- New technology like the Apple iPad should continue to drive sales, as will the FIFA World Cup (visual).
- As the economy continues to gain traction and consumer confidence builds we expect consumer spend to increase into the calendar year.
- Expect sales in FY10 of circa \$2.8b (a 20% increase over pcp) and NPAT to be in the range of \$117m to \$120m (a 24% to 27% increase over pcp).
- Target of 210 JB branded stores (160 Tier 1* and 50 Tier 2* format) in Australia and New Zealand – giving us 5 to 6 years of continued strong growth (current number of JB stores 122).

Industry

- Continues to consolidate – big getting bigger/stronger (JB Hi-Fi, HVN, Good Guys), number of other players struggling.
- Large retailers are coming out of downturn in an even stronger position.
- All categories remain very competitive.
- Visual, Computers/IT and Telco all have good growth forecasts.

* Refer to explanation in Appendix II.

4. FINANCIAL DETAIL

Profit and Loss Statement



AU\$m	AUST			NZ			CONSOLIDATED		
	HY09	HY10	Growth	HY09	HY10	Growth	HY09	HY10	Growth
Sales	1,194.5	1,477.2	23.7%	67.0	76.6	14.2%	1,261.6	1,553.8	23.2%
Gross Profit	258.1	316.4	22.5%	11.3	11.4	1.0%	269.5	327.8	21.6%
Gross Margin	21.6%	21.4%	-19 bps	16.9%	14.9%	-196 bps	21.4%	21.1%	-26 bps
EBITDA	98.3	123.7	25.8%	(0.4)	(1.1)	-160.7%	97.9	122.6	25.2%
Depreciation & Amortisation	8.0	10.4		0.7	0.8		8.7	11.2	
EBIT	90.3	113.3	25.5%	(1.1)	(1.9)	-72.5%	89.2	111.4	24.9%
EBIT Margin	7.6%	7.7%	+11 bps	(1.7%)	(2.5%)	-85 bps	7.1%	7.2%	+10 bps
Net Profit After Tax							59.0	76.0	28.8%
Headline Statistics:									
Earnings per share (basic ø)							55.3	70.5	27.4%
Cost of doing business	13.4%	12.9%	-51 bps	17.6%	19.7%	+214 bps	13.6%	13.2%	-39 bps
Stores at period end	109*	124	+15 stores	14*	13	- 1 store	123*	137	+14 stores

* as at 30 June 2009.

4. FINANCIAL DETAIL....

Balance Sheet



AU\$m	HY09	HY10	FY09
Cash	90.8	127.4	35.8
Receivables	97.3	113.4	60.3
Inventories	300.3	373.3	324.5
Other Current Assets	4.6	6.4	5.7
Total Current Assets	493.0	620.4	426.2
Fixed Assets	131.4	155.1	136.1
Brandname & Goodwill	81.8	82.8	81.4
Other Non-Current	16.6	16.1	18.0
Total Non-Current Assets	229.8	254.0	235.4
Total Assets	722.8	874.4	661.7
Payables	377.0	447.0	274.0
Other	50.5	53.6	49.8
Total Current Liabilities	427.4	500.6	323.7
Borrowings	69.3	69.5	89.4
Other Non-Current Liabilities	17.3	20.5	19.3
Total Non-Current Liabilities	86.6	90.0	108.7
Total Liabilities	514.0	590.6	432.4
Net Assets	208.8	283.8	229.3

4. FINANCIAL DETAIL....

Cashflow Statement



AU\$m	HY09	HY10
EBITDA	97.9	122.6
Change in Working Capital	108.5	73.6
Net Interest Paid	(4.4)	(2.7)
Income Tax Paid	(21.5)	(29.4)
Other	9.1	4.4
Net Cashflow from Operations	189.6	168.4
Purchases of P&E	(29.1)	(30.3)
Payments for intangible assets	-	(1.4)
Net Cashflow from Investing	(29.1)	(31.7)
Borrowings / (Repayments)	(55.0)	(20.0)
Proceeds from issue of Equity	3.9	6.3
Dividends Paid	(17.1)	(31.3)
Net Cashflow from Financing	(68.2)	(45.1)
Net Change in Cash Position	92.3	91.6
Cash at the end of Period	90.8	127.4

4. FINANCIAL DETAIL....

Working capital and key ratios:



AU\$m	HY09	HY10
(Increase)/decrease in current assets		
Inventory	(28.4)	(48.6)
Receivables	(44.3)	(53.2)
Other current assets	0.5	(0.7)
Increase/(decrease) in current liabilities		
Trade creditors	170.9	173.2
Other current liabilities	9.8	2.9
Net Movement in Working Capital	108.5	73.6

Performance Indicators:

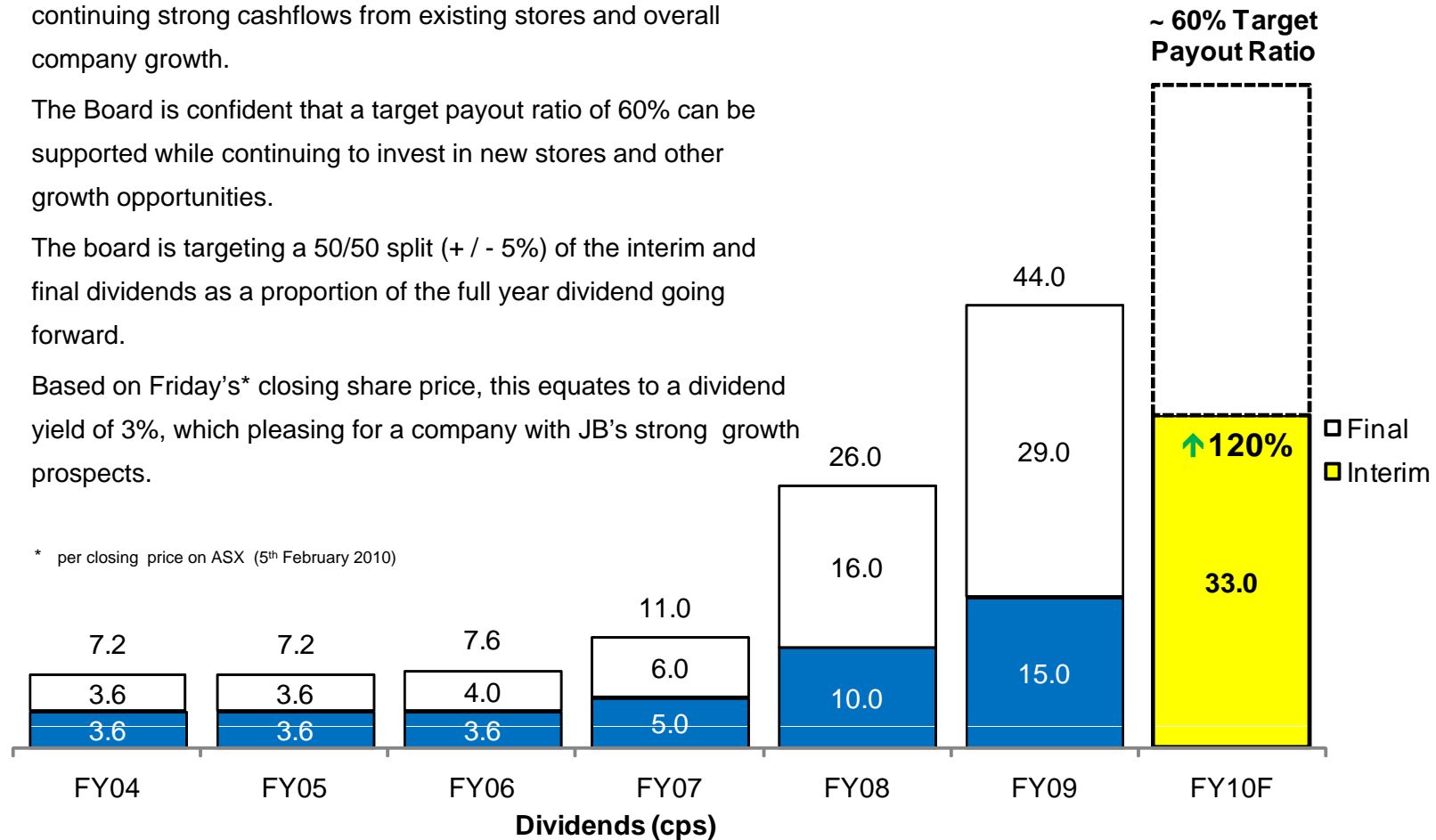
Stock Turnover	6.9x	7.0x
Creditors Days	54.1	54.1
Fixed Charge Ratio	3.7x	4.1x
Interest Cover	18.7x	34.4x
Return on Equity	28.3%	26.8%
Return on Invested Capital	47.6%	49.3%

- Working capital is an ongoing focus of management and is in-line with current expectations.
- Inventory Management:
 - Inventory management remains a constant focus, inventory relating to new stores was \$44.1m;
 - Inventory turnover has improved to 7.0 times (pcp: 6.9 times); and
 - Like for like inventory turnover was 7.3 times (pcp: 7.2 times).
- Receivables relate predominately to supplier rebates.
- Creditors days were consistent with the prior period.
- Fixed charges ratio at 4.1 times, coupled with high interest cover is a good indication of JB's balance sheet strength and our low financial and operational leverage.

5. DIVIDENDS



- The half year dividend has been increased 120% to 33.0 cents per share fully franked.
- Target payout ratio has increased to 60% reflecting the Company's continuing strong cashflows from existing stores and overall company growth.
- The Board is confident that a target payout ratio of 60% can be supported while continuing to invest in new stores and other growth opportunities.
- The board is targeting a 50/50 split (+ / - 5%) of the interim and final dividends as a proportion of the full year dividend going forward.
- Based on Friday's* closing share price, this equates to a dividend yield of 3%, which pleasing for a company with JB's strong growth prospects.



6. STORE UPDATE

15 stores opened in HY10



➤ 22 new stores to open in FY10 (15 opened in HY10)

- 22 JB Hi-Fi stores:
 - **NSW:** Albury*, Artarmon , Belrose*, Eastgardens*, Moore Park*, Top Ryde*, Wollongong Central*, World Square*, Wagga Wagga
 - **QLD:** Brisbane CBD (2x)*, Browns Plains, Mt Ommaney , Rockhampton*, Townsville*
 - **VIC:** Bendigo, Malvern*, Northland , Shepparton*, South Wharf*
 - **WA:** Perth CBD*
 - **SA:** Melrose
- 1 H&S store was rebranded to JB Hi-Fi:
 - **NZ:** Westgate (Sept 09)
- All remaining H&S stores will be closed by March 2010.

* new stores opened in HY10



7. CHANGE OF CEO – BUSINESS AS USUAL



- Richard Uechtritz to retire as CEO July /August 2010 after 10 years with the Company.
- Terry Smart an Executive Director since July 2000 and COO will become CEO as part of the Company's long term succession plan.
- Terry joined the Company with Richard in July 2000 as part of the management buy in.
- Terry and Richard have worked together for 16 years and Terry has been an integral part of building the JB successful retail model.
- Terry, as COO, has an intimate knowledge of the company and what makes and has made JB successful having been responsible for all store operations, supply chain management and systems development.
- Terry has a significant investment in the Company with 1,500,000 shares (current value circa \$30 million) and 396,045 options.
- The company has been able attract and retain a very strong management team – most of whom have been part of JB's success for many years.
- Richard is retiring from the role of CEO to pursue personal and philanthropic interests.
- Company will retain access to Richard's retail knowledge:
 - Richard will rejoin the company as a Non Executive Director in early 2011, after 6 months leave; and
 - Richard will also enter into a 3 year consulting agreement with the Company at the time of leaving.

Please refer to a copy of the full announcement in Appendix III

8. INVESTMENT CHECKLIST



Why JB Hi-Fi should continue to grow and trade well.

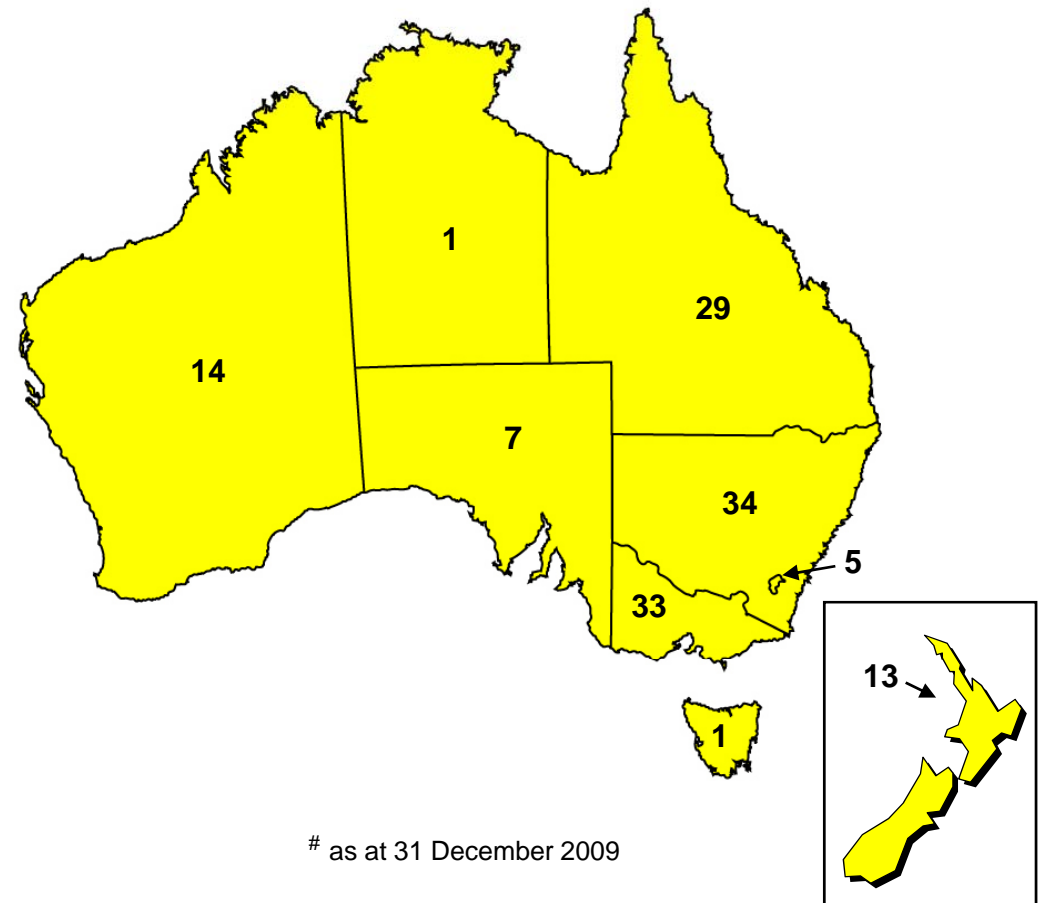
- ☑ Strong and unique retail model.
- ☑ Operates mainly in high growth home entertainment and technology sector.
- ☑ Low cost of doing business – best of listed retailers.
- ☑ Many new store opportunities
 - JB circa 210 (160 Tier 1 format and 50 Tier 2 format) in Australia and New Zealand (122 as at end HY10)
- ☑ Good growth potential from computer and mobile consumer electronics (telco) categories.
- ☑ Size and continued high growth gives us great buying power and advertising synergies.
- ☑ Low capital investment and high return on invested capital.
- ☑ Low gearing.
- ☑ Strength and depth of management.

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Store movements during HY10

	FY09	HY10			Total
		Opened	Rebranded	Closed	
AUSTRALIA					
JB Hi-Fi	98	15	-	-	113
Clive Anthony's	11	-	-	-	11
	109	15	-	-	124
NEW ZEALAND					
JB Hi-Fi	8	-	1*	-	9
Hill & Stewart	6	-	-	(2)*	4
	14	-	1	(2)	13
	123	15	1	(2)	137
Store Format:					
Shopping centres	59	4	1	(1)	63
Other	64	11	-	(1)	74
	123	15	1	(2)	137

Geographic breakdown#



* 1 H&S store was rebranded in September 2009 to a JB Hi-Fi store

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APPENDIX II



a) EBIT reconciliation

AU\$m	HY09	HY10
Profit for the year (per Appendix 4D)	59.0	76.0
<i>add back</i>		
- income tax expense	26.3	32.7
Profit before Tax	85.4	108.7
<i>add back</i>		
- interest received	(1.0)	(0.6)
- interest expense	4.8	3.2
- net interest expense	3.8	2.7
Earnings before interest and tax (EBIT)	89.2	111.4

b) CODB reconciliation

AU\$m	HY09	HY10
Other income	(0.1)	(0.1)
Sales and marketing expenses (App 4D)	116.1	139.0
Occupancy expenses (App 4D)	40.3	49.2
<i>less depreciation</i>	(5.7)	(8.2)
Administration expenses (App 4D)	10.9	12.9
<i>less depreciation</i>	(3.0)	(3.1)
Other expenses (App 4D)	13.0	15.4
Cost of Doing Business (CODB)	171.6	205.2
Sales	1,261.6	1,553.8
CODB (% of sales)	13.6%	13.2%

c) Store types

JB Hi-Fi is currently targeting 210 stores in Australia and New Zealand. This target is split between Tier 1 (160 stores) and Tier 2 (50 stores). While each store is different, broadly the stores can be defined as follows:

- Tier 1:** approximately 1,100 to 1,300 sqm of which circa 80% is retail space. The investment in a new Tier 1 store is approximately \$2.3m (\$1.3m in capital expenditure and \$1.0m in working capital); and
- Tier 2:** these stores are likely to be approximately 70% of a Tier 1 store in size and/or turnover. The investment in a new Tier 2 store is approximately \$1.6m (\$0.9m in capital expenditure and \$0.7m in working capital).

d) Closure of H&S Chain – financial implications

- We have elected to close our 4 remaining H&S stores during this quarter (3 now closed). YTD these store have contributed NZ\$11.7m in sales, representing less than 20% of our NZ turnover;
- The cost of exiting the H&S business is circa AU\$2.5m, mainly relating to asset write-offs.
- The P&L impact of these costs has been offset by the release of provisions raised in the FY09 consolidated financial results. As a result, there will be no impact on FY10 consolidated earnings.
- We anticipate the H&S stores operating loss in FY10 will be circa AU\$1m, with the majority attributable to the 1st half.

COMPANY ANNOUNCEMENT

8 February 2010

Terry Smart to succeed Richard Uechtritz as CEO

JB Hi-Fi CEO Richard Uechtritz, announces today his intention to retire as chief executive in July/August 2010 following 10 years of service with the company. Chairman Patrick Elliott announces the appointment of current COO Terry Smart to succeed Mr Uechtritz upon his retirement.

Mr Uechtritz and Mr Smart both joined JB Hi-Fi in July 2000 to lead a consortium of private equity investors in a management buy in.

“Richard has made an enormous contribution to the success of the Company since leading the management buy in back in July 2000. During his tenure as CEO revenue has grown from \$145 million to a forecast \$2.8 billion in the current financial year, and JB Hi-Fi has been established as one of Australia’s most recognised retail brands” said Company Chairman Patrick Elliott. “Investors who have held JB shares since the IPO in October 2003 to today will have received an annual rate of return of 48.0% compared to the ASX 200 returning 5.1% per annum over the same period. Richard is deservedly considered one of this country’s most effective chief executives.”

Mr Smart has been Chief Operating Officer and an Executive Director of JB Hi-Fi for nearly 10 years. During this time he has been responsible for store retail operations, inventory management and systems development. “Terry is a very talented retail executive and we are fortunate to have him follow Richard in the role. It has been the Board’s succession plan for some time for Terry to follow Richard as CEO and we are delighted that he will be taking up the role. His knowledge of the business is second to none and the Board is confident in Terry’s ability to continue executing the Company’s growth strategy” added Mr Elliott.

“The Company has been very successful in attracting and retaining good people, providing outstanding depth to the management team, which will ensure a smooth transition” said Mr Elliott.

COMPANY ANNOUNCEMENT

8 February 2010

Terry Smart to succeed Richard Uechtritz as CEO

“Terry and I have worked together for 16 years and I have no doubt that he will make an outstanding CEO. He has made a huge contribution to the company’s success and we are on the same page as to what has made and makes JB a great company” said Richard Uechtritz. “On a personal note it is time for me. Ten years is a good innings as a CEO. The company is in great shape - with a strong balance sheet and good growth prospects. I will be leaving to pursue my personal and philanthropic interests that being a full time executive does not allow.”

Following Mr Uechtritz’s retirement and a six month period of absence, he will rejoin the Board as a Non Executive Director in early 2011. The Company will enter into a consulting agreement with Mr Uechtritz on his retirement, for a term of three years to facilitate his ongoing support of the business.

“The Company is in a very strong and competitive position with many years of solid growth ahead of it. We operate in an industry where strong sales growth has been and will continue to be driven by constant technological advancements. This underlying industry growth, combined with our recently opened stores maturing, the continued roll out of new stores and further refinement of our execution, will see us continue to be successful ” said Mr Smart. “I am very much looking forward to the challenge of leading the team and continuing to build on the strong platform developed during Richard’s tenure as CEO.”

Mr Smart has a significant investment in JB Hi-Fi owning 1.5 million shares worth approximately \$30 million, together with 396,045 options under the companies Long Term Incentive Program.

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