

# LEWIS GROUP LIMITED COMPANY REVIEW

**Lewis**  
Group Ltd

JUNE  
2010





## AGENDA

1. Investment Case
2. Year in Review 31 March 2010
3. Debtor Analysis
4. Financial Results
5. Outlook

# 1. INVESTMENT CASE

- **Solid business model established over past 75 years.**
- **Consistent performance.**
- **Historically high operating margin business with low cost structures.**
  - **New format store**
  - **Introduction of furniture into Best Home & Electric**
- **Strongly cash generative.**



# The Investment Case (Cont'd)

- **Dividend per share maintained.**
- **Cash returned to shareholders –Two Thirds of 2004 listing market cap (66%).**
- **Merchandise management and innovation – a prime focus.**
- **Stock turn – 6.0 times.**



## The Investment Case (Cont'd)

- **Integrated credit and marketing strategies focus on good paying customers**
- **Develop long term customer relationships at store level.**
- **High level of repeat business. (55% of total sales).**
- **Target Market LSM 4-7. A growing market in South Africa.**
- **Centralised credit granting processes.**



# The Investment Case (Cont'd)

- **Sophisticated credit application, behavioural scorecards and affordability models.**
- **Customer debt to income ratio (39%) well below national average (78%).**
- **Proven store based collections process.**
- **Experienced management team.**



# Core Strengths

- **Re-serve model** → **± 55% of sales from repeat business**
- **In store promotions** → **Building customer loyalty**
- **Convenience** → **Extensive store network**
- **Selection** → **Merchandise offers to meet local needs**
- **Small store based Warehouses** → **90% of deliveries executed within 24 hours**
- **Immediate Credit decision** → **Centralised credit approval**
- **Store based collections** → **Direct relationship with customer**



# Re-serve Scheme

- **Identifies suitability of customer for further credit extension.**
- **Fully integrated with debtors system and store operations.**
- **Driven by historic payment behaviour & current indebtedness.**
- **Customer base is segmented and targeted monthly.**
- **Targeted direct mailing with promotional offers.**
- **In-store operations – follow through on promotional offers.**

## 2. YEAR IN REVIEW

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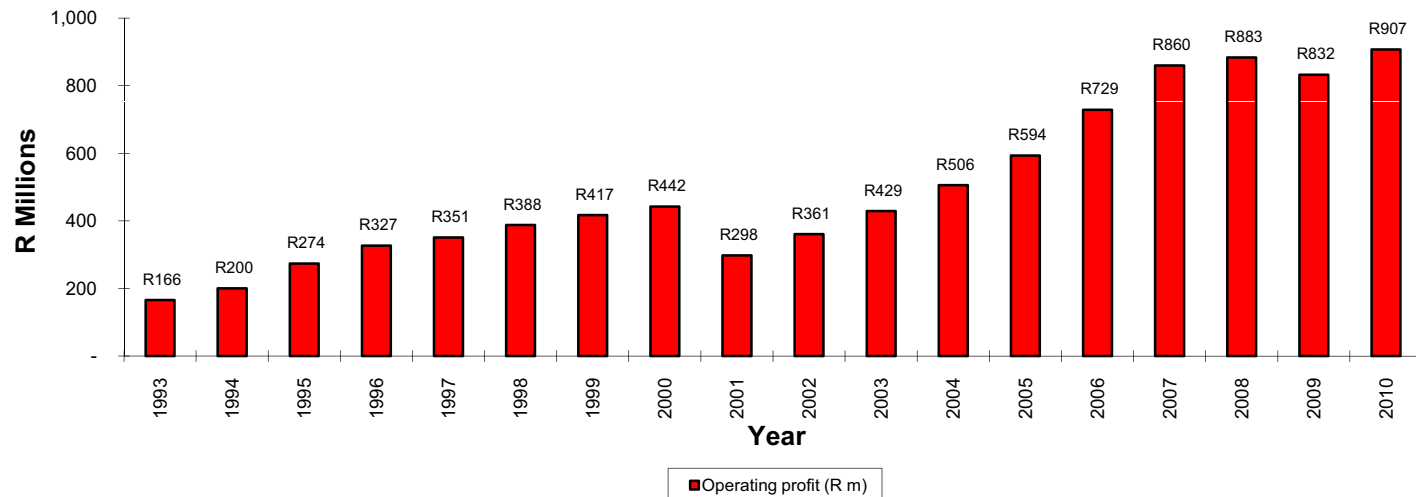


## 2. YEAR IN REVIEW - MARCH 2010

R4 111m	R907m	22.1%	672c	323c
+ 8.0%	+ 9.0%	22.1%	+ 5.6%	Maintained
Revenue	Operating Profit	Operating Margin	Earnings per Share	Dividend per Share

# Operating Profit - History

Solid performance over the past 18 years –  
Compound annual growth of 10.5%



22%	23%	27%	27%	27%	28%	27%	24%	15%	18%	21%	22%	24%	25%	26%	25%	22%	22%
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Operating margin  
%



# Year In Review

- Improving sales trend – up 6.5%.
  - Furniture & appliances (82% of business) - up 8.5%
  - Electronic sales (18% of business) - flat
- Improving credit/cash mix – 68.5% (FY09: 64.3%).
- Debtor costs 10.9% of net Debtors (FY09: 10.0%).

## Year In Review (Cont'd)

- Merchandise innovation - new ranging launched.
- Gross profit margin improved and currency losses recovered.

	<u>FY10</u>	<u>FY09</u>
Gross profit	34.9%	31.3%
Exchange gains/(losses)	<u>(1.5%)</u>	<u>0.6%</u>
All in gross	33.4%	31.9%

- Stock turn improved from 5.8 to 6.0 times.

# 3. DEBTOR ANALYSIS

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# Debtor Costs

	<b>FY10</b>	<b>FY09</b>
	<b>Rm</b>	<b>Rm</b>
Total Debtor costs	434	339
<ul style="list-style-type: none"><li>▪ Bad debts written off</li><li>▪ Impairment Provision</li></ul>	331 103	202 137
Debtor costs as a % of net debtors	10.9%	10.0%

# Impairment Provision

	<b>FY10</b>	<b>FY09</b>
	<b>Rm</b>	<b>Rm</b>
Net Debtors before prov.	3 971	3 388
Impairment provision	635	533
Impairment provision %	16.0%	15.7%
Credit application decline rate	27.5%	25.4%

Impairment provision at 16% well above Debtor costs of 10.9%.

# Debtor Payment Analysis

Debtor's Payment Analysis		NUMBER OF CUSTOMERS			IMPAIRMENT PROVISION %		NCA OVER 24 MONTHS
			2010	2009	2010	2009	
<b>Satisfactory paid</b>	Customers fully up to date including those who have paid 70% or more of amounts due over the contract period	<b>No.</b>	498,370	497,296			237,124
		<b>%</b>	72.7%	72.0%	0%	0%	79.2%
<b>Slow payers</b>	Customers who have paid between 70% and 65% of amounts due over the contract period	<b>No.</b>	58,476	57,042			19,633
		<b>%</b>	8.5%	8.2%	23%	20%	6.5%
<b>Non performing customers</b>	Customers who have paid between 65% and 55% of amounts due over the contract period	<b>No.</b>	48,446	50,300			16,283
		<b>%</b>	7.1%	7.3%	43%	42%	5.4%
<b>Non performing customers</b>	Customers who have paid 55% or less of amounts due over the contract period	<b>No.</b>	80,417	86,448			26,533
		<b>%</b>	11.7%	12.5%	94%	88%	8.9%
			<b>685,709</b>	<b>691,086</b>	<b>16.0%</b>	<b>15.7%</b>	<b>299,573</b>



Average impairment provision on non performing customers – 75% (LY 71%).  
Impairment provision allocated on number of customers in the four summary categories.

# 4. FINANCIAL RESULTS

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# Income Statement

	FY10	FY09	%
	Rm	Rm	
Revenue	4 111	3 807	8.0%
Merchandise sales	2 046	1 920	6.5%
Gross profit %	34.9%	31.3%	
Operating profit	907	832	9.0%
Operating margin %	22.1%	21.9%	
Attributable earnings	591	561	5.4%
EPS (cents)	672	636	5.6%
Headline EPS (cents)	643	631	1.9%

# Segmental Analysis

<b>2010</b>		<b><u>Group</u></b>	<b><u>Lewis</u></b>	<b><u>Best Home Electric</u></b>	<b><u>Lifestyle Living</u></b>
Revenue (Rm)		4 111	3 470	504	137
Revenue growth (%)		8.0%	8.3%	10.8%	(7.7%)
Operating profit (Rm)		907	809	96	2
Operating margin	FY:10	22.1%	23.3%	19.1%	1.7%
	FY:09	21.9%	23.0%	20.1%	2.8%
Number of stores		548	436	92	20



IFRS8: OPERATING SEGMENTS

Information provided to Chief Operating decision makers

# Business Split

		Retail Rm	Risk Services Rm	Financial Services Rm	Group Rm
<u>2010</u>					
Revenue		2 319	616	1 176	4 111
Operating profit		336	151	420	907
Operating margin	FY:10	14.5%	24.5%	35.8%	22.1%
	FY:09	12.9%	31.4%	35.9%	21.9%

- Supplied for continuity purposes only.  
Our business is not managed in accordance with this split.
- Our business model reflects the customer centric nature of operations based on the premise that the selling of furniture and the provision of credit are interdependent.



## Analysis of Costs - Excluding Debtor Costs

	FY10 Rm	FY09 Rm	Change %
Employment costs	607	542	12.0%
Admin and IT	195	176	10.8%
Marketing	134	124	8.1%
Occupancy costs	165	151	9.3%
Transport/Travel	136	139	(2.2%)
Depreciation	46	47	(2.2%)
Other operating costs	155	139	11.5%
Total	1 438	1 318	9.1%
% of revenue	35.0%	34.6%	

# Balance Sheet Overview

	FY10 Rm	FY09 Rm
Property, plant and equipment	251	225
Investments	894	734
Inventory	210	228
Net Debtors	3 428	2 893
Cash	62	55
<b>Total Assets</b>	<b>4 845</b>	<b>4 135</b>
Shareholders' equity and reserves	3 274	2 900
Retirement benefits	52	54
Tax and Deferred Tax	108	40
Creditors	450	404
Interest-bearing borrowings	961	737
	<b>4 845</b>	<b>4 135</b>

# Capital Ratios

	FY10	FY09
ROE – after tax (%)	19.2%	20.1%
ROCE – after tax (%)	17.2%	17.7%
ROA – before tax (%)	21.9%	23.0%
Total Dividend (cents)	323	323
Gearing ratio (%)	27.5%	23.5%



- No further share buy back planned
- Gearing is well within our max range of 35%

# Net Cash Position

	FY10	FY09
Insurance Investments	894	734
Cash	62	55
Cash, Bonds, Equities	<u>956</u>	<u>789</u>
Interest Bearing Borrowings	<u>961</u>	<u>737</u>
Net position	<u>(5)</u>	<u>52</u>

## 5. OUTLOOK

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# Outlook

- Lifestyle re-engineered.

**My Home**

# Outlook (Cont'd)

- The proven business model a competitive advantage.
- Management of Debtors book a priority.
  - We face the challenge of unemployment and the working of short time.
  - The collections environment continues to improve.
  - Debtor costs should moderate in the year ahead.

## Outlook (Cont'd)

- Merchandise innovation focused on exclusivity and increased furniture sales.
- More aggressive store expansion.
  - 3 to 4 yr target : 700 stores
  - FY2011 40 stores
  - Small store concept
- Operating margin three year target.

