



Lewis
Group Ltd

ANNUAL REPORT 2010



OPERATING PROFIT – HISTORY

SOLID PERFORMANCE OVER THE PAST 18 YEARS
 – COMPOUND ANNUAL GROWTH OF 10.5%

■ Operating profit (Rm)



FINANCIAL HIGHLIGHTS

REVENUE
INCREASED BY
8.0%

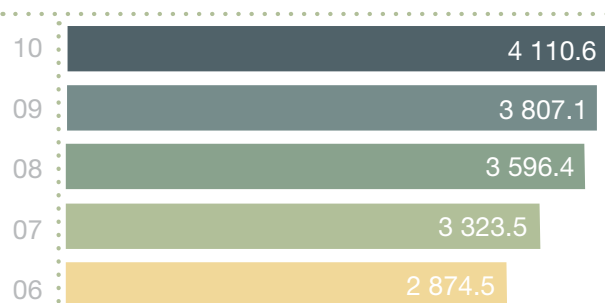
OPERATING PROFIT
MARGIN
22.1%

OPERATING
PROFIT UP
9.0%

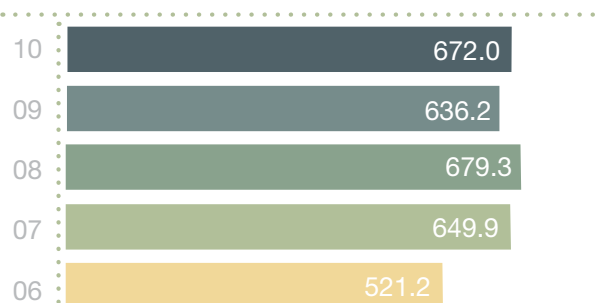
EARNINGS PER
SHARE UP
5.6%

TOTAL DIVIDEND PER
SHARE MAINTAINED AT
323 cents

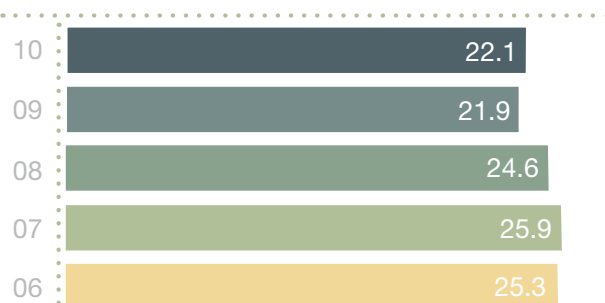
REVENUE – (R MILLIONS)



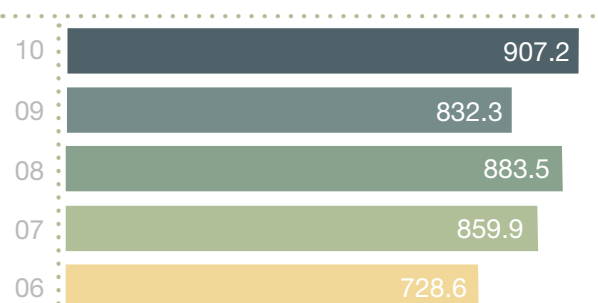
EPS – (CENTS)



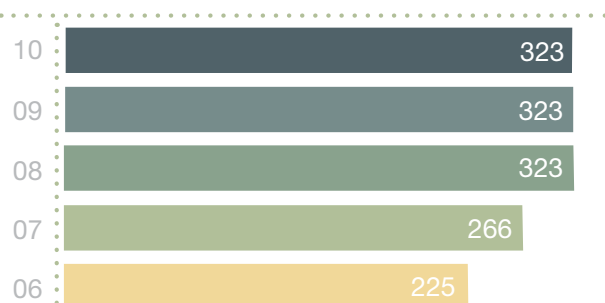
OPERATING MARGIN – (PERCENTAGE)



OPERATING PROFIT (R MILLIONS)



DIVIDENDS DECLARED – (CENTS)



BRAND STRENGTH AND GROWTH PERFORMS THROUGH ALL CYCLES.

Lewis Group is a leading retailer of household furniture, electrical appliances and home electronics sold on credit through the Lewis, Best Home and Electric and Lifestyle Living brands.

Focused primarily on the expanding middle to lower income market in the living standards measurement (LSM) 4 to 7 categories, the group has a customer base of close to 700 000.

A new chain, My Home, will be launched early in the 2011 financial year, targeting more aspirational customers in the LSM 7 and 8 groups.

Monarch Insurance, the group's financial services arm, provides short-term insurance cover to credit customers.

Founded 76 years ago in Cape Town, the Lewis Group has grown its branch network to 548 stores. This includes stores across all major metropolitan areas as well as a strong presence in rural South Africa, with 49 stores in the neighbouring countries of Botswana, Lesotho, Namibia and Swaziland.

The group has been listed on the JSE Limited since 2004 where it is classified under the General Retailers sector.

Further information on the group's history and operations is available on the corporate website www.lewisgroup.co.za





THE GROUP OFFERS A COMPELLING CASE FOR INVESTORS LOOKING FOR EXPOSURE TO THE COUNTRY'S RETAIL SECTOR WITH A FOCUS ON A HIGH GROWTH SEGMENT OF THE POPULATION. INVESTORS SHOULD CONSIDER THE FOLLOWING FEATURES WHEN EVALUATING A POTENTIAL INVESTMENT IN THE LEWIS GROUP:

CLEAR STRATEGIC DIRECTION

- Focused on core business of furniture retailing
- Primary focus on high growth LSM 4 – 7 target market
- Lewis one of most recognisable furniture brands in SA

PROVEN BUSINESS MODEL

- Integrated credit and marketing strategies
- Centralised credit approval and granting process
- Decentralised cash collection process
- Differentiated and exclusive merchandise ranges (refer to 'customer-focused business model' on page 4.)

INDUSTRY-LEADING CREDIT MANAGEMENT

- Credit offered across all brands
- Advanced application and behavioural risk scorecards
- High proportion of credit business
- Opportunity to sell insurance to credit customers

SUSTAINED FINANCIAL PERFORMANCE

- Historically high operating margins
- Operating margin target of 26% by 2013
- Low cost structure

STORE-BASED CUSTOMER FOCUS

- Long-term personal relationships developed with customers
- 55% of business to existing customers through re-serve programme

STORE FOOTPRINT

- National coverage of 548 stores
- Presence in all major metropolitan and rural areas
- Stores conveniently located for needs of target customers
- Targeting to open 150 stores in three to four years

EXPERIENCED MANAGEMENT TEAM

- Strong blend of company and industry experience

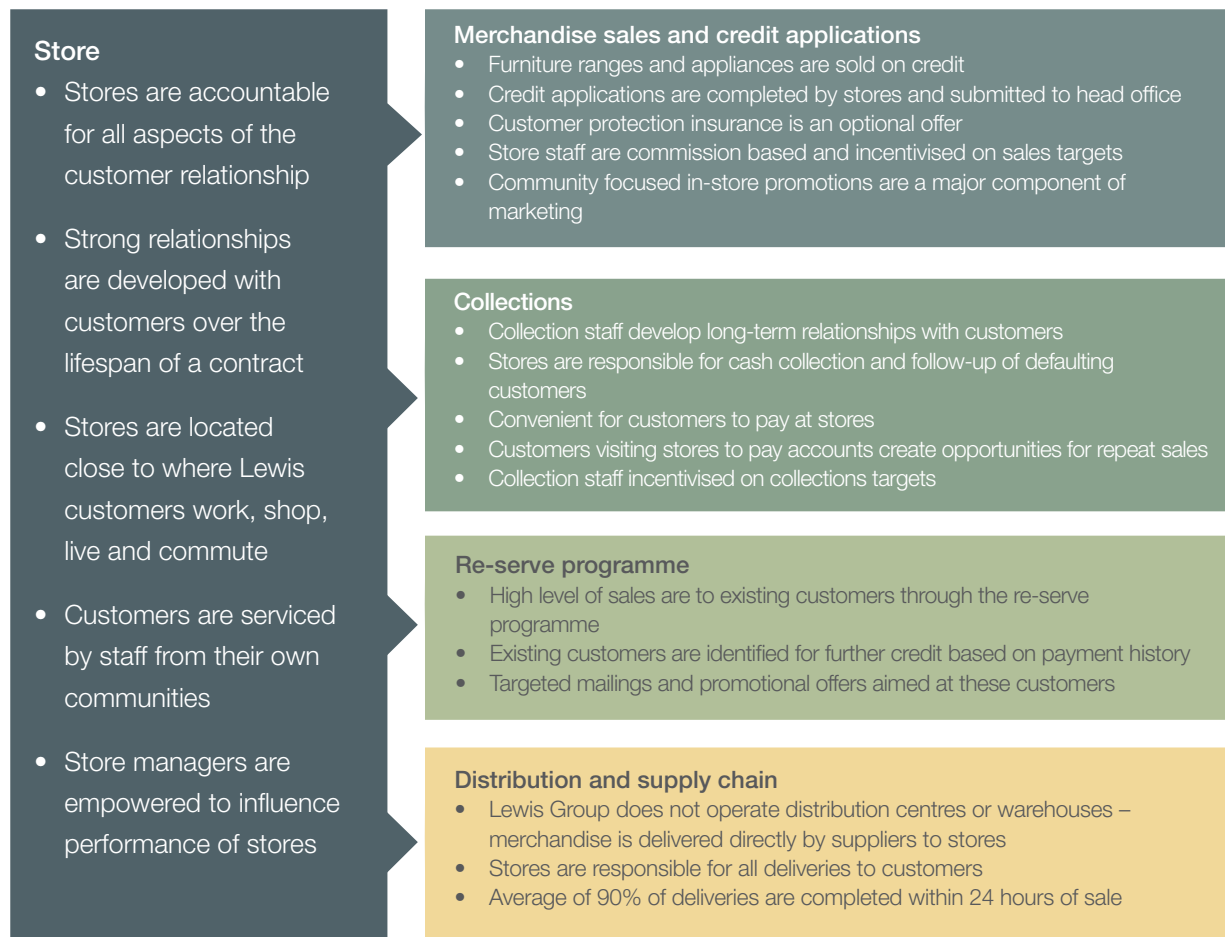
CUSTOMER-FOCUSED BUSINESS MODEL

LEWIS GROUP OPERATES A DECENTRALISED, STORE-BASED BUSINESS MODEL WHERE ALL ASPECTS OF THE RELATIONSHIP WITH THE CUSTOMER ARE MANAGED BY THE STAFF IN THE STORES.

This model has been consistently applied since the inception of the business and is based on the premise that the selling of furniture and the provision of credit

are interdependent. The only aspects of the customer relationship that are not managed at a store level are the credit approval and granting processes.

CUSTOMER RELATIONSHIPS MANAGED BY STORES



CENTRALISED CREDIT ASSESSMENT AND APPROVAL



A HISTORY OF CONSISTENT GROWTH



1930s

1934: Latvian-born Meyer Lewis buys “Woodstock Auction Mart” in Cape Town.

1936: The name changes to M. Lewis and Company and new furniture is introduced to its range of products.

1940s

1946: On 30 October, Lewis listed on the J.S.E. under the name “Lewis Stores Limited” to raise capital for expanding the business in South Africa.

The household furnishing businesses and the entire issued share capital of M. Lewis and Company (Proprietary) Limited is acquired from Meyer, Jack and Israel Lewis.

1947: GUS plc enters the South African retail furniture market by acquiring a controlling interest in Lewis and Barons Furnishers. Lewis is subsequently delisted.

1950s

1950: A programme of expansion commences and runs over the next seven years.

1957: Lewis has 55 stores trading under the names “Barons”, “Excelsior Meubels”, “Lewis” and “Universal Stores” (the latter being a credit clothing chain with nine stores).

1960s – 1970s

1969 – 1972: Lewis establishes branches in Botswana, Namibia and Swaziland.

1972: Lewis acquires a furniture chain of about 50 stores from Edgars Consolidated Stores Limited, which is rebranded “Dan Hands”. Its clothing chain, Universal Stores, is sold to Edgars.

1980s – 1990s

1980 – 1990: Further expansion takes place, including the establishment of Lewis (Lesotho), and the group grows by an additional 100 stores.

1994: The group’s financial services arm is established through wholly-owned subsidiary, Monarch Insurance.

1997: The group decides to refocus away from the lower end of the market and 130 Dan Hands stores are converted to Lewis stores.

1998: The Best Electric chain is launched to sell specialised electrical products in six stores in high traffic areas.

1998: The commencement of a credit application scoring system.

2000s

1999 – 2000: The group embarks on a major investment in information and technology systems.

2003: Lewis acquires the business of Lifestyle Living, which has 18 stores serving a higher income market.

2004: Lewis is listed on the JSE under its newly constituted holding company, Lewis Group Limited. To facilitate the listing, GUS plc offered 46% of its holding in a book-building exercise, retaining 54% of the group.

2005: GUS plc sold its remaining holding in the group.

The net result was a diverse shareholder base with no shareholder holding more than 20%.

2007: Lewis opens its 500th store.

2008: The Best Electric chain expands its product range by offering furniture lines and consequently, is rebranded as Best Home and Electric.

FIVE-YEAR REVIEW

	2010	2009	2008	2007	2006
	Rm	Rm	Rm	Rm	Rm
GROUP INCOME STATEMENTS					
Revenue	4 110.6	3 807.1	3 596.4	3 323.5	2 874.5
Cost of sales	(1 330.6)	(1 318.3)	(1 272.1)	(1 194.0)	(1 020.6)
Operating costs	(1 872.8)	(1 656.5)	(1 440.8)	(1 269.6)	(1 125.3)
Operating profit	907.2	832.3	883.5	859.9	728.6
Investment income	77.5	76.9	71.7	42.7	28.9
Profit before interest and taxes (EBITA)	984.7	909.2	955.2	902.6	757.5
Finance costs	(121.2)	(86.5)	(56.8)	(12.4)	(12.8)
Net profit before tax	863.5	822.7	898.4	890.2	744.7
Taxation	(272.1)	(261.5)	(289.9)	(291.9)	(237.6)
ATTRIBUTABLE PROFIT	591.4	561.2	608.5	598.3	507.1
HEADLINE EARNINGS	565.5	556.2	584.1	594.2	510.4
GROUP BALANCE SHEETS					
ASSETS					
Non-current	980.1	760.2	702.9	746.9	730.9
Property, plant and equipment	251.1	225.1	197.5	182.9	163.2
Investments – insurance business	716.0	535.1	505.4	461.1	478.0
Deferred tax asset	13.0	–	–	102.9	89.7
Current	3 877.9	3 375.3	3 058.1	2 653.0	2 249.1
Investments – insurance business	178.1	199.1	159.5	199.3	111.9
Inventories	210.0	228.0	230.4	230.3	212.6
Trade and other receivables	3 427.6	2 893.4	2 571.8	2 187.7	1 896.5
Taxation	–	–	29.6	–	–
Cash and cash equivalents	62.2	54.8	66.8	35.7	28.1
TOTAL ASSETS	4 858.0	4 135.5	3 761.0	3 399.9	2 980.0
EQUITY AND LIABILITIES					
Capital and reserves	3 273.7	2 900.3	2 696.2	2 527.2	2 305.4
Non-current liabilities	486.3	191.6	59.0	93.0	97.7
Interest-bearing borrowings	350.0	100.0	–	–	1.0
Retirement benefits	51.8	53.9	57.7	67.6	75.8
Deferred taxation	84.5	37.7	1.3	25.4	20.9
Current liabilities	1 098.0	1 043.6	1 005.8	779.7	576.9
Trade and other payables	450.0	404.1	302.4	287.7	283.5
Current portion of interest-bearing borrowings	–	–	–	1.0	0.8
Short-term borrowings	611.4	637.0	703.4	429.3	132.8
Taxation	36.6	2.5	–	61.7	159.8
TOTAL EQUITY AND LIABILITIES	4 858.0	4 135.5	3 761.0	3 399.9	2 980.0

	2010	2009	2008	2007	2006
	Rm	Rm	Rm	Rm	Rm
GROUP CASH FLOW STATEMENTS					
CASH GENERATED FROM OPERATIONS	478.1	669.7	556.2	591.5	593.2
Dividends and interest received	59.9	96.3	61.0	58.7	41.3
Interest paid	(127.2)	(108.5)	(68.2)	(30.0)	(18.7)
Tax paid	(214.2)	(185.6)	(290.4)	(403.2)	(244.4)
Net cash retained from operations	196.6	471.9	258.6	217.0	371.4
Cash utilised in investing activities	(126.3)	(183.0)	(97.3)	(66.6)	(45.5)
Net effect of financing activities	(37.3)	(234.5)	(404.3)	(439.3)	(313.9)
Net cash increase / (decrease) in cash and cash equivalents	33.0	54.4	(243.0)	(288.9)	12.0

	2010	2009	2008	2007	2006
RATIOS AND STATISTICS					
RETURNS					
Return on average shareholders funds (after-tax)	19.2%	20.1%	23.3%	24.8%	23.2%
Return on average capital employed (after-tax)	17.2%	17.7%	20.4%	22.5%	22.1%
Return on average assets managed (pre-tax)	21.9%	23.0%	26.7%	28.3%	26.8%
MARGINS					
Gross margin	34.9%	31.3%	32.7%	34.0%	34.9%
Operating margin	22.1%	21.9%	24.6%	25.9%	25.3%
PRODUCTIVITY					
Number of stores	548	535	525	508	490
Revenue per store (R 000's)	7 501	7 116	6 850	6 542	5 866
Operating profit per store (R 000's)	1 655	1 556	1 683	1 693	1 487
Average number of employees (permanent employees only)	6 668	6 480	6 696	6 310	5 879
Revenue per employee (R 000's)	616	588	537	527	489
Operating profit per employee (R 000's)	136	128	132	136	124
Trading space (sqm)	225 891	223 102	220 236	215 076	210 201
Revenue per sqm (R)	18 197	17 064	16 330	15 453	13 675
Operating profit per sqm (R)	4 016	3 731	4 012	3 998	3 466
Inventory turn (times)	6.0	5.8	5.5	5.2	4.8
CREDIT RATIOS					
Cash and short-term sales as a % of total sales	31.5%	35.7%	33.1%	30.7%	29.9%
Bad debts as a % of net trade receivables	8.3%	6.0%	5.9%	5.5%	6.0%
Debtor costs as a % of net trade receivables	10.9%	10.0%	6.5%	5.8%	5.2%
Debtors' impairment provision as a % of net trade receivables	16.0%	15.7%	13.5%	14.9%	16.5%
Arrear instalments on satisfactory paid accounts as a % of net debtors	9.3%	9.5%	10.6%	10.7%	10.5%
Arrear instalments on slow-paying and non-performing accounts as a % of net debtors	19.8%	20.9%	19.3%	19.0%	20.6%
Doubtful debts provision on non-performing accounts	74.9%	71.3%	69.6%	81.2%	86.4%
Credit applications decline rate %	27.5%	25.4%	22.5%	20.1%	22.4%

FIVE-YEAR REVIEW CONTINUED

	2010	2009	2008	2007	2006
SOLVENCY AND LIQUIDITY					
Financing cover (times)	8.1	10.5	16.8	72.8	59.2
Dividend cover	1.87	1.79	2.00	2.25	2.25
Gearing ratio (%)	27.5%	23.5%	23.6%	15.6%	4.6%
Current ratio (times)	3.5	3.2	3	3.4	3.9
SHARE PERFORMANCE					
Earnings per share (cents)	672.0	636.2	679.3	649.9	521.2
Headline earnings per share (cents)	642.6	630.5	652.0	645.4	524.6
Cash flow per share (cents)	543.3	759.2	620.9	642.5	609.7
Net book asset per share (cents)	3 718.8	3 302.6	3 019.7	2 774.3	2 425.0
Share price:					
Closing price	56.50	42.69	41.90	68.50	61.60
High	61.30	52.00	75.00	75.00	62.97
Low	40.06	28.51	43.00	43.00	32.75
Normalised price-earnings ratio	8.4	6.7	6.2	10.5	11.8
Dividends per share for the financial year (cents)	323	323	323	266	225
Number of shares in issue (million)	98.1	98.1	99.2	100	100
Volume of shares traded (million)	95.9	96.0	110.5	120.8	156.1
Value of shares traded (million)	4 911.4	3 679.7	6 284.7	6 859.1	6 386.8
Market capitalisation (million)	5 540	4 188	4 156	6 850	6 160
Number of shareholders	1 968	1 609	1 501	1 776	2 331

EXPLANATORY NOTES:

1. All ratios are based on figures at the end of the year unless otherwise disclosed.
2. For the 2006 financial year, the results and financial position exclude the share-based payment (IFRS 2) arising from share awards and options granted at date of listing.
3. The 2008 and 2009 results have been restated for the change in accounting policy with regard to the deferred costs on initiation fees.



DEFINITIONS

The definitions below should be read in conjunction with the accounting policies set out in the financial statements on pages 71 to 77.

Return on average shareholders' equity

Profit attributable to ordinary shareholders as a percentage of average shareholders' equity.

After-tax return on average capital employed

After-tax return for capital is the profit attributable to ordinary shareholders plus finance costs paid to providers of capital less the attributable tax on finance costs.

Capital employed is shareholders' interest and interest-bearing debt.

The after-tax return on average capital employed is the after tax return for capital as a percentage of the average capital employed for the year.

Before-tax return on average assets managed

The before-tax return on average assets managed is the profit before interest and tax as a percentage of the average total assets.

Gross margin

Gross profit as a percentage of merchandise sales.

Operating margin

Operating profit as a percentage of revenue.

Inventory turn

Cost of merchandise sales divided by the closing inventory.

Slow-paying accounts (receivables)

These are customers who, to date, have paid between 65% and 70% of the amount due to Lewis over the whole period of the contract.

Non-performing accounts (receivables)

These are customers who, to date, have paid less than 65% of the amount due to Lewis over the whole period of the contract.

Financing cover

Profit before finance costs and taxation divided by the finance costs.

Gearing ratio

Interest-bearing debt, reduced by cash and cash equivalents, divided by shareholders' equity.

Current ratio

Current assets divided by current liabilities.

Earnings per share

Profit attributable to ordinary shareholders divided by the weighted average number of shares in issue.

Headline earnings per share

Headline earnings divided by the weighted average number of shares in issue.

Cash flow per share

Cash generated from operations divided by the weighted average shares in issue.

Net asset value per share

The net asset value divided by the number of shares in issue, after deducting treasury shares, at the end of the year.

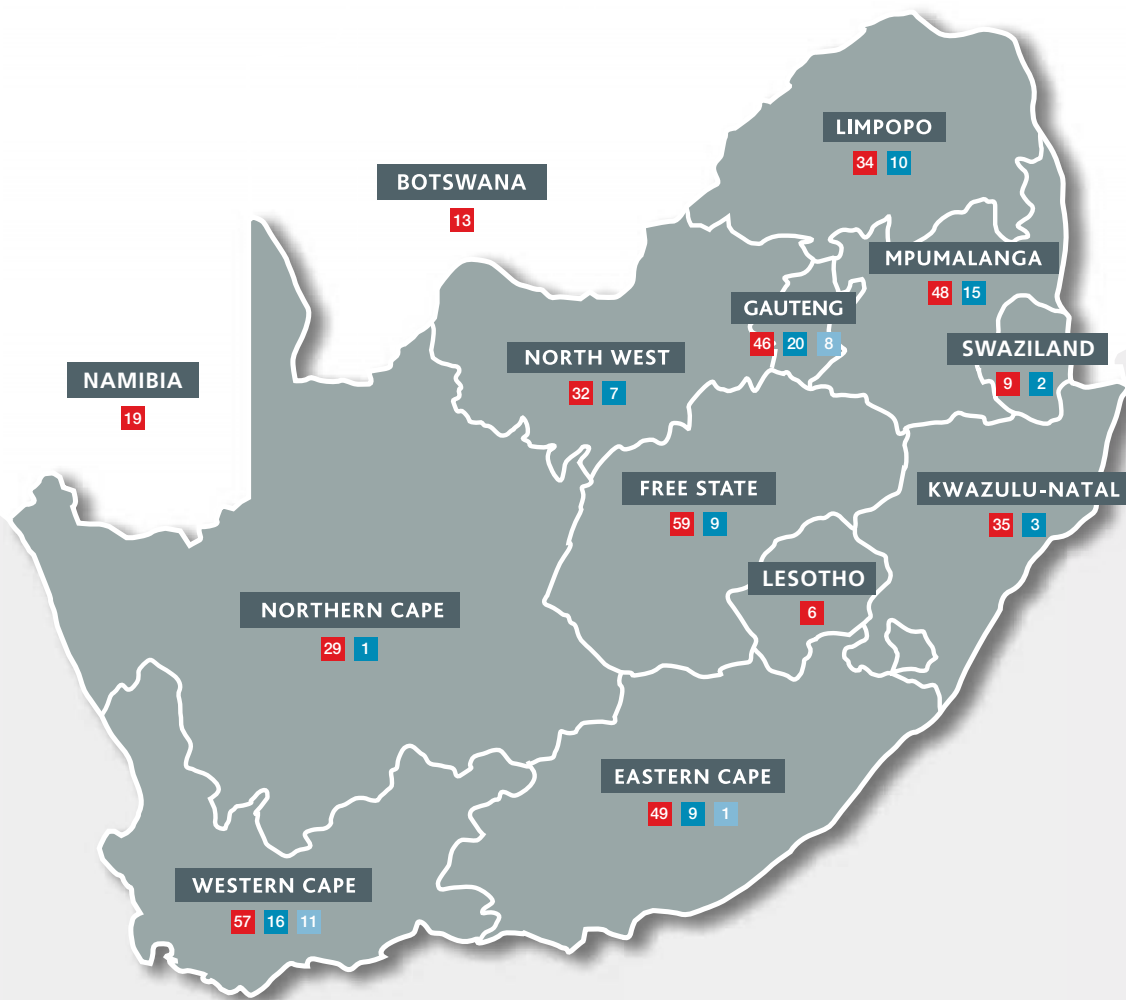
Price earnings ratio

The closing price on the JSE Limited on 31 March divided by the earnings per share.

Dividends per share

The dividends declared in respect of the financial year expressed as cents per share. Note that this will not correlate to the dividends reflected in the financial accounts since dividends for financial statement purposes are only recorded on payment.

GEOGRAPHICAL FOOTPRINT



COUNTRY AND PROVINCE LOCATIONS

	■ Lewis	■ Best Electric	■ Lifestyle Living
South Africa			
Free State	59	9	–
Western Cape	57	16	11
Mpumalanga	48	15	–
Eastern Cape	49	9	1
Gauteng	46	20	8
KwaZulu-Natal	35	3	–
Limpopo	34	10	–
North West	32	7	–
Northern Cape	29	1	–
Namibia	19	–	–
Botswana	13	–	–
Swaziland	9	2	–
Lesotho	6	–	–
Stores as at 31 March 2010	436	92	20
Total stores	548		