



“Brand strength and growth performs through all cycles.”

Lewis Group is a leading retailer of household furniture, electrical appliances and home electronics, which are mainly sold on credit to the rapidly expanding middle income market through the Lewis, Best Home and Electric and Lifestyle Living brands.

The retail brands are supported by the financial services arm, Monarch Insurance, which provides short-term insurance to the group's credit customers.

Since the first store opened in 1934 in Woodstock, Cape Town, the group has expanded to a network of 535 stores. This includes stores across all major metropolitan areas as well as a strong presence in rural areas in South Africa, with 49 stores in the neighbouring countries of Botswana, Lesotho, Namibia and Swaziland.

Lewis is the country's single largest retail furniture brand and the group has a customer base of close to 700 000.

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

investment proposition



Lewis Group offers an attractive proposition to investors seeking exposure to the country's retail sector or more particularly the highly competitive furniture retail industry. The following points motivate an investment case for Lewis Group:

- Consistent and proven business model
- Focused on core business of furniture retailing
 - Differentiated and exclusive merchandise ranges
 - Lewis one of the country's most recognisable furniture brands
- Primary focus is on high growth LSM 4 – 7 target market
- Store-based customer focus
 - Long-term customer relationships
 - Integrated credit and marketing strategies
 - High level of repeat business through re-serve programme
 - Efficient cash collection process
- Credit offered across all brands
 - Ability to sell insurance products to customer base
- Centralised credit approval and granting process
 - Advanced application and behavioural risk scorecards
 - Immediate response to credit applications
- Track record of superior financial performance
 - Historically high operating margins
 - Low cost structure
 - Generates strong cash flows
- Extensive store network
 - Presence in all major metropolitan and rural areas
 - Stores conveniently located for needs of target customers
 - Positioned to benefit from competitor brand and store closures
 - New format Lewis store creates further growth opportunities
- Highly experienced management team

financial highlights

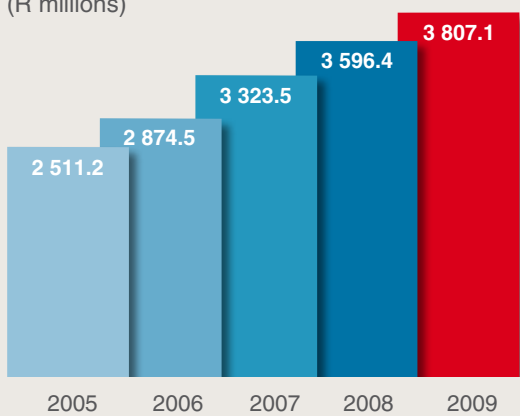
Revenue increased by **5.9%**

Headline earnings per share down by **7.6%**

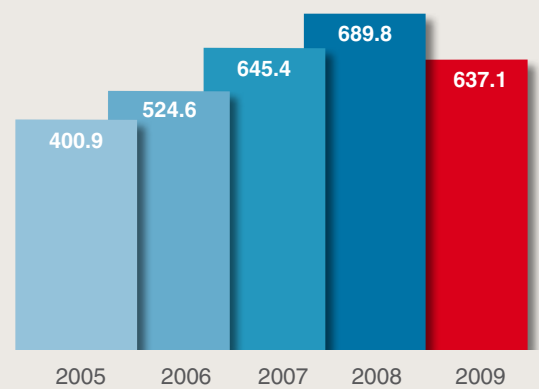
Cash flow from operations increased by **20.4%**

Dividend per share maintained

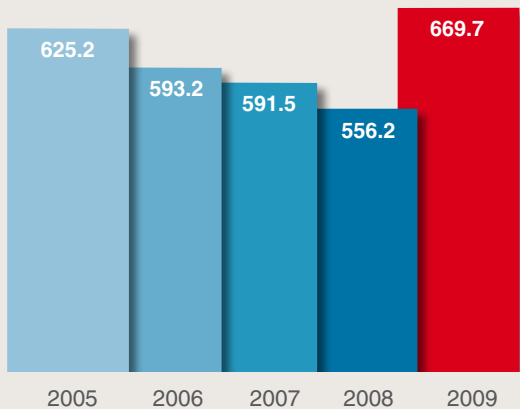
Revenue
(R millions)



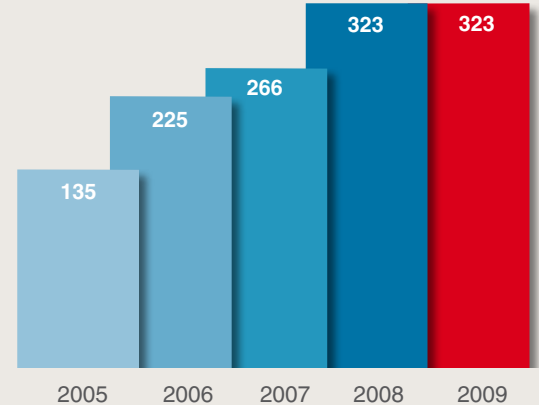
Headline EPS
(cents)



Cash flow
(R millions)



Dividends declared
(cents)



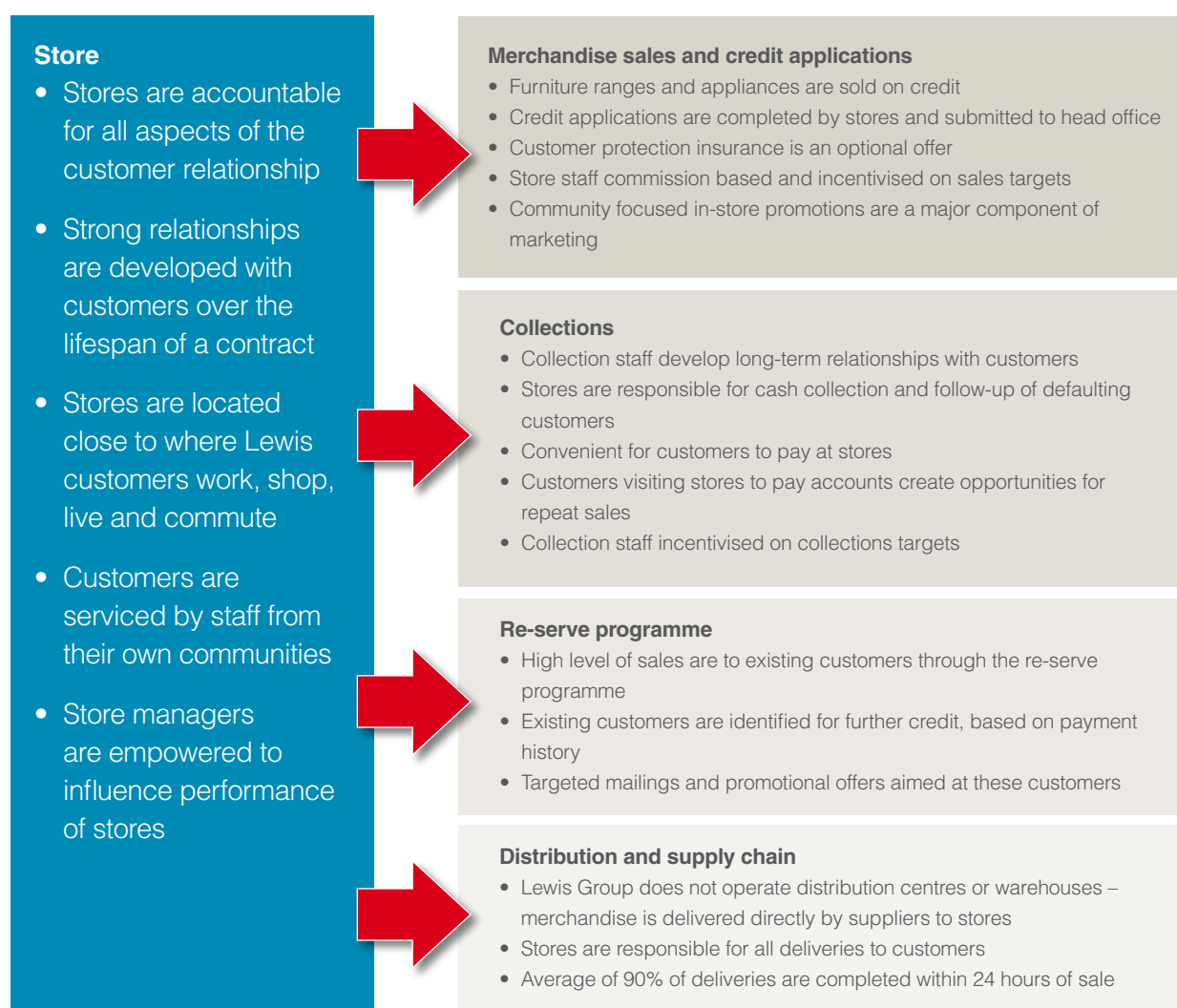
customer- focused business model

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 inter-dependent.

The only functions that are not managed at a store level are the credit approval and granting processes. This is operated centrally to ensure that credit risk policies are consistently applied across the group and to all

customers, and removes any subjectivity in the credit-granting process. Credit applications are submitted by the stores to head office where industry-leading technology, together with application risk and behavioural scorecards, is used to determine the creditworthiness of a customer. Decisions on credit applications are then relayed to stores within an average of just nine seconds.

The following diagram details the role of the store in managing the customer relationship, highlighting the efficiency of the business model.



five-year review

	2009	2008	2007	2006	2005
	Rm	Rm	Rm	Rm	Rm
Group Income Statements					
Revenue	3 807.1	3 596.4	3 323.5	2 874.5	2 511.2
Cost of sales	(1 318.3)	(1 272.1)	(1 194.0)	(1 020.6)	(885.0)
Operating costs	(1 648.5)	(1 393.9)	(1 269.6)	(1 125.3)	(1 032.7)
Operating profit	840.3	930.4	859.9	728.6	593.5
Investment income	76.9	71.7	42.7	28.9	37.6
Profit before interest and taxes (EBITA)	917.2	1 002.1	902.6	757.5	631.1
Finance costs	(86.5)	(56.8)	(12.4)	(12.8)	(42.7)
Net profit before tax	830.7	945.3	890.2	744.7	588.4
Taxation	(263.7)	(303.0)	(291.9)	(237.6)	(182.4)
Attributable profit	567.0	642.3	598.3	507.1	406.0
Headline earnings	562.0	617.9	594.2	510.4	400.9
Group Balance Sheets					
Assets					
Non-current	764.8	706.0	746.9	730.9	608.8
Property, plant and equipment	229.7	200.6	182.9	163.2	159.5
Investments – insurance business	535.1	505.4	461.1	478.0	400.6
Deferred tax asset	–	–	102.9	89.7	48.7
Current	3 425.6	3 101.9	2 653.0	2 249.1	2 066.9
Investments – insurance business	199.1	159.5	199.3	111.9	105.2
Inventories	228.0	230.4	230.3	212.6	155.8
Trade and other receivables	2 943.7	2 615.6	2 187.7	1 896.5	1 750.6
Taxation	–	29.6	–	–	–
Cash and cash equivalents	54.8	66.8	35.7	28.1	55.3
Total assets	4 190.4	3 807.9	3 399.9	2 980.0	2 675.7
Equity and liabilities					
Capital and reserves	2 939.9	2 730.0	2 527.2	2 305.4	2 059.6
Non-current liabilities	206.9	72.1	93.0	97.7	86.1
Interest-bearing borrowings	100.0	–	–	1.0	1.7
Retirement benefits	53.9	57.7	67.6	75.8	72.4
Deferred taxation	53.0	14.4	25.4	20.9	12.0
Current liabilities	1 043.6	1 005.8	779.7	576.9	530.0
Trade and other payables	404.1	302.4	287.7	283.5	225.2
Current portion of interest-bearing borrowings	–	–	1.0	0.8	7.2
Short-term borrowings	637.0	703.4	429.3	132.8	172.0
Taxation	2.5	–	61.7	159.8	125.6
Total equity and liabilities	4 190.4	3 807.9	3 399.9	2 980.0	2 675.7

five-year review *continued*

	2009	2008	2007	2006	2005
	Rm	Rm	Rm	Rm	Rm
Group Cash Flow Statements					
Cash generated from operations	669.7	556.2	591.5	593.2	625.2
Dividends and interest received	96.3	61.0	58.7	41.3	46.9
Interest paid	(108.5)	(68.2)	(30.0)	(18.7)	(319.9)
Tax paid	(185.6)	(290.4)	(403.2)	(244.4)	(207.7)
Net cash retained from operations	471.9	258.6	217.0	371.4	144.5
Cash utilised in investing activities	(183.0)	(97.3)	(66.6)	(45.5)	(53.0)
Net effect of financing activities	(234.5)	(404.3)	(439.3)	(313.9)	(567.0)
Net cash increase/(decrease) in cash and cash equivalents	54.4	(243.0)	(288.9)	12.0	(475.5)
	2009	2008	2007	2006	2005
Ratios and Statistics					
Returns					
Return on average shareholders' funds (after-tax)	20.0%	24.4%	24.8%	23.2%	22.1%
Return on average capital employed (after-tax)	17.7%	21.4%	22.5%	22.1%	18.5%
Return on average assets managed (pre-tax)	22.9%	27.8%	28.3%	26.8%	23.0%
Margins					
Gross margin	31.3%	32.7%	34.0%	34.9%	34.5%
Operating margin	22.1%	25.9%	25.9%	25.3%	23.6%
Productivity					
Number of stores	535	525	508	490	475
Revenue per store (R 000's)	7 116	6 850	6 542	5 866	5 287
Operating profit per store (R 000's)	1 571	1 772	1 693	1 487	1 249
Average number of employees (permanent employees only)	6 480	6 696	6 310	5 879	5 713
Revenue per employee (R 000's)	588	537	527	489	440
Operating profit per employee (R 000's)	130	139	136	124	104
Trading space (sqm)	223 102	220 236	215 076	210 201	207 595
Revenue per sqm (R)	17 064	16 330	15 453	13 675	12 097
Operating profit per sqm (R)	3 766	4 225	3 998	3 466	2 859
Inventory turn (times)	5.8	5.5	5.2	4.8	5.7
Credit ratios					
Cash and short-term sales as a % of total sales	35.7%	33.1%	30.7%	29.9%	30.1%
Bad debts as a % of net trade receivables	6.0%	5.9%	5.5%	6.0%	5.9%
Debtor costs as a % of net trade receivables	10.0%	6.5%	5.8%	5.2%	4.8%
Debtors' impairment provision as a % of net trade receivables	15.7%	13.5%	14.9%	16.5%	18.3%
Arrear instalments on satisfactory paid accounts as a % of net debtors	9.5%	10.6%	10.7%	10.5%	11.2%
Arrear instalments on slow paying and non-performing accounts as a % of net debtors	20.9%	19.3%	19.0%	20.6%	23.3%
Doubtful debts provision on non-performing accounts	71.3%	69.6%	81.2%	86.4%	87.3%
Credit applications decline rate %	25.4%	22.5%	20.1%	22.4%	20.5%

	2009	2008	2007	2006	2005
Solvency and liquidity					
Financing cover (times)	10.6	17.6	72.8	59.2	14.8
Dividend cover	1.79	2.00	2.25	2.25	3.00
Gearing ratio (%)	23.2%	23.3%	15.6%	4.6%	6.1%
Current ratio (times)	3.3	3.1	3.4	3.9	3.9
Share performance					
Earnings per share (cents)	642.8	717.0	649.9	521.2	406.0
Headline earnings per share (cents)	637.1	689.8	645.4	524.6	400.9
Cash flow per share (cents)	759.2	620.9	642.5	609.7	625.2
Net book asset per share (cents)	3 347.6	3 057.6	2 774.3	2 425.0	2 059.6
Share price:					
Closing price	42.69	41.90	68.50	61.60	33.51
High	52.00	75.00	75.00	62.97	41.50
Low	28.51	43.00	43.00	32.75	28.20
Price-earnings ratio	6.6	5.8	10.5	11.8	8.3
Dividends per share for the financial year (cents)	323	323	266	225	135
Number of shares in issue (million)	98.1	99.2	100	100	100
Volume of shares traded (million)	96.0	110.5	120.8	156.1	61.8
Value of shares traded (million)	3 679.7	6 284.7	6 859.1	6 386.8	2 139.5
Market capitalisation (million)	4 188	4 156	6 850	6 160	3 351
Number of shareholders	1 609	1 501	1 776	2 331	2 862

Explanatory notes:

1. All ratios are based on figures at the end of the period unless otherwise disclosed.
2. For 2005 to 2009 financial years, the results and financial position are determined in accordance with International Financial Reporting Standards, but exclude share-based payments (IFRS 2) arising from share awards and options granted at date of listing, charged in 2005 and 2006.
3. The return on equity for the 2005 financial year has been restated to exclude the effect of the restructuring prior to the listing.

Definitions

The definitions below should be read in conjunction with the accounting policies set out in the financial statements on pages 65 to 72.

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 70% and 65% 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.