LEWIS GROUP LIMITED

ANNUAL MERRILL LYNCH CONFERENCE

MARCH
2012

Lewis Group Ltd


AGENDA

1. The Investment Case
2. Debtor Analysis
3. Financial Results
4. Outlook

1. THE INVESTMENT CASE

1. The Investment Case

- Solid business model established over the past 75 years.
- Consistent performance.
- Historically high operating margin business with low cost structures.
  - Small format Lewis store
  - Best Home & Electric allied furniture lines

Lewis Group Ltd

The Investment Case (Cont'd)

- Dividend per share – 50% payout.
- Merchandise management and innovation.
  - exclusivity a prime focus
  - two range launches per annum
- Solid stock turn – 5 times.
- Integrated credit and marketing strategies focus on good paying customers.

Group Ltd

The Investment Case (Cont'd)

- Develop long-term customer relationships at store level.
- High level of repeat business. (55% of total sales)
- Target Market LSM 4-7. A focus of government spend.
- Centralised credit granting processes.
- Sophisticated credit application, behavioural scorecards and affordability models.

Lewis Group Ltd

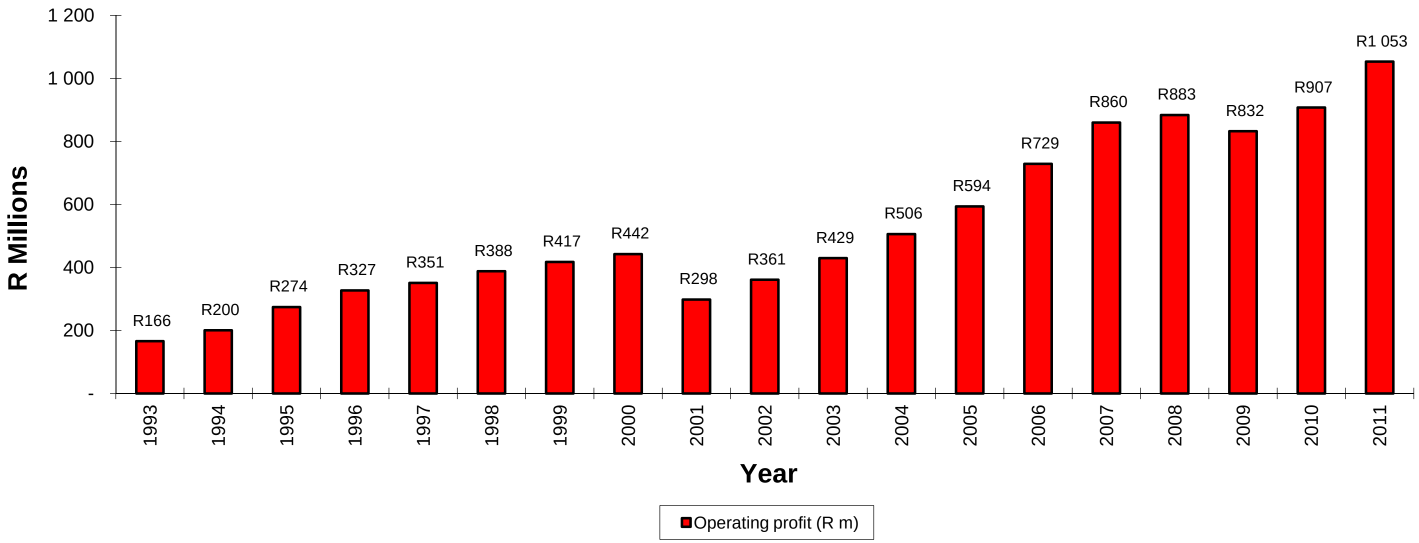
The Investment Case (Cont'd)

- Customer debt to income ratio (44%) well below national average (78%).
- Proven store-based collections process.
- Experienced management team.
- CHALLENGE TO THE INVESTMENT CASE

  Unemployment and slow job creation remains a risk.

Operating Profit – History

Solid operating performance over the past 19 years – Compound annual growth of 10.8%



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

Operating margin %

Core Strengths

• Re-serve model	→	± 55% of sales from repeat business
• In-store promotions	→	Building customer relationships and loyalty
• Convenience	→	Extensive store network
• Selection	→	Merchandise offers to meet local needs
• Small storerooms positioned close to shop	→	90% of deliveries executed within 24 hours
• Immediate credit decision	→	Centralised credit approval
• Store-based collections	→	Face-to-face contact with customer

Lewis Group Ltd

Re-serve Scheme

- Identifies qualifying current customers for further credit extension.
- Fully integrated with debtors system and store operations.
- Driven by historic payment behaviour & total indebtedness.
- Customer base segmented and targeted monthly.
- Promotional offers targeted via direct mailing.
- In-store operations – follow through on promotional offers.

Lewis Group Ltd

2. DEBTOR ANALYSIS

Debtors Provisions

- The Lewis business model is credit-based with 73% of sales on credit.

- 700 000 individual debtors with a debtors book of R4.9 billion.

- Debtor provisions well above debtor costs.

Group Ltd

Debtor Costs H1

	H1/2012 Rm	H1/2011 Rm
Total debtor costs	247	206
▪ Bad debts written off	49	48
▪ Impairment provision	198	158
Debtor costs as a % of net debtors	5.1%	4.8%

Debtors Impairment Provision

	H1/2012 Rm	H1/2011 Rm
Net debtors before provision	4 835	4 312
Impairment provision	956	793
Impairment provision %	19.8%	18.4%
Credit application decline rate	32.4%	31.1%

Impairment – Net present value of expected cash flow discounted at interest rate applicable to contract.

Debtor Payment Analysis

Impairment provision allocated on number of customers in the four summary categories

Debtor's Payment Analysis			NUMBER OF CUSTOMERS		IMPAIRMENT PROVISION %			NCA OVER 24 MONTHS
			H1/2012	H1/2011	H1/2012	H1/2011	March 2011	H1/2012
Satisfactory paid	Customers fully up to date including those who have paid 70% or more of amounts due over the contract period	No.	512 825	510 722				269 970
		%	71.6%	71.6%	1%	0%	1%	72.3%
Slow payers	Customers who have paid between 70% and 65% of amounts due over the contract period	No.	53 625	55 380				28 200
		%	7.5%	7.8%	28%	25%	27%	7.6%
Non-performing customers	Customers who have paid between 65% and 55% of amounts due over the contract period	No.	46 847	50 302				23 974
		%	6.6%	7.0%	44%	44%	44%	6.4%
Non-performing customers	Customers who have paid 55% or less of amounts due over the contract period	No.	102 492	97 062				51 107
		%	14.3%	13.6%	98%	98%	98%	13.7%
			715 789	**713 466**	**19.8%**	**18.4%**	**16.8%**	**373 251**

- Average impairment provision on non-performing customers – 81% (LY 80%).
- Continue to provide for the aggregate amount of insurance charges that may be impacted by the *in duplum* rule

Lewis Group Ltd

3. FINANCIAL RESULTS

Overview of H1/2012 Results

Revenue	Operating Profit	Operating Margin	Headline Earnings per Share	Dividend per Share
R2 279m	R499m	38.5%	378.7c	172c
+ 6.7%	+ 6.3%	+ 340 bps	+ 13.9%	+ 10.3%

Income Statement H1

	H1/2012 Rm	H1/2011 Rm	%
Revenue	2 279	2 136	6.7%
Merchandise sales	1 091	1 058	3.2%
Gross profit margin %	38.5%	35.1%	
Operating profit	499	469	6.3%
Operating profit margin %	21.9%	22.0%	
Attributable earnings	337	296	14.2%
EPS (cents)	382	335	13.9%
Headline EPS (cents)	379	333	13.9%

Segmental Analysis H1

H1/2012		Group	Lewis	Best Home Electric	My Home/ Lifestyle
Revenue (Rm)		2 279	1 917	305	56
Revenue growth (%)		6.7%	6.7%	11.5%	(15.0%)
Operating profit (Rm)		499	436	64	(1)
Operating margin	H1:12	21.9%	22.7%	20.9%	(2.3%)
	H1:11	22.0%	23.0%	19.3%	4.7%
Number of stores	H1:12	593	463	112	18

Lewis Group Ltd

Analysis of Costs
(Excluding debtor costs)

	H1/2012 Rm	H1/2011 Rm	Change %
Employment costs	360	328	9.7%
Admin and IT	106	101	4.7%
Marketing	98	81	20.9%
Occupancy costs	98	88	11.0%
Transport/Travel	83	69	20.3%
Depreciation	28	28	0.0%
Other operating costs	89	79	12.7%
Total	862	774	11.3%
% of revenue	37.8%	36.2%	

Lewis Group Ltd

Balance Sheet Overview

	H1/2012 Rm	H1/2011 Rm
Property, plant and equipment	298	269
Insurance investments	1 175	984
Inventory	308	265
Net debtors	3 982	3 611
Cash	111	84
Total assets	**5 874**	**5 213**
Shareholders' equity and reserves	3 899	3 463
Retirement benefits	64	53
Tax and Deferred Tax	112	122
Creditors	646	601
Interest-bearing borrowings	1 153	974
	5 874	5 213

Capital Ratios H1

	H1/2012	H1/2011
ROE – after tax (%)	17.6%	17.6%
ROCE – after tax (%)	14.6%	15.6%
ROA – before tax (%)	18.6%	19.8%
Interim dividend declared (cents)	172	156
Gearing ratio %	26.7%	25.7%

Lewis Group Ltd

4. OUTLOOK

Outlook for 2012/13

THIRD QUARTER TRADING UPDATE – DECEMBER 2011

Merchandise sales 3rd quarter increase	**5.5%**
Debtor costs (cum 9 months to December)	**+16%**

Lewis Group Ltd

Outlook for 2012/13 (Cont'd)

- The proven business model – a competitive advantage

- Management of debtor book remains a top priority

- Merchandise innovation – a key focus

Outlook for 2012/13 (Cont'd)

- **Store expansion**
  - **Medium-term target : 700 stores**
  - **20 – 25 stores next year**
- **Operating margin medium-term target – 26%**

5. QUESTIONS