Annual Merrill Lynch Conference March 2014

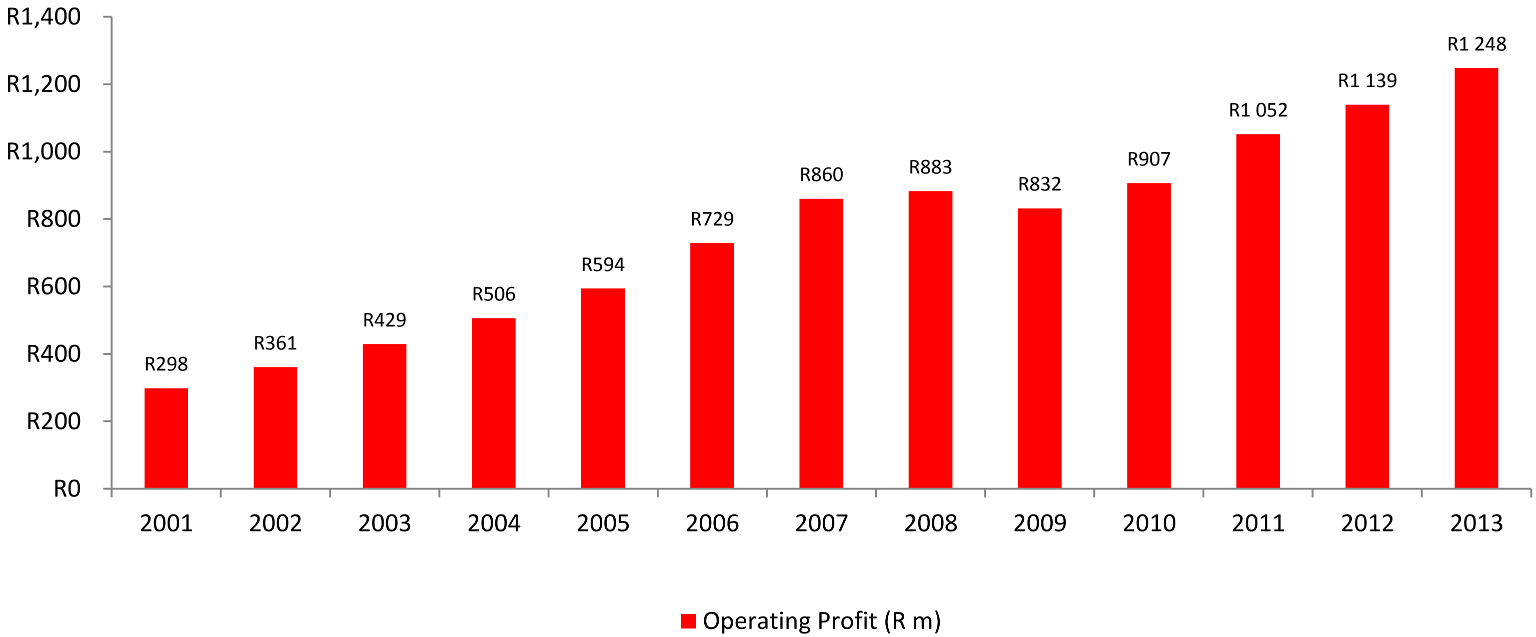
Agenda

1 THE INVESTMENT CASE
2 DEBTOR ANALYSIS
3 OVERVIEW OF RESULTS
4 REGULATORY UPDATE
5 OUTLOOK

Lewis Group Ltd

Operating Profit History

Solid operating performance over the past 13 years – Compound annual growth of 12.7%



15%	18%	21%	22%	24%	25%	26%	25%	22%	22%	23%	23.5%	24%

Operating margin %

INVESTMENT CASE

- Robust business model established over the past 80 years
- Consistent performance
- Historically high operating margin business with low cost structures
  - Small format Lewis Stores
  - Best Home & Electric allied furniture lines
- Dividend payout ratio – 55%

INVESTMENT CASE

- Merchandise management and innovation
  - exclusivity a prime focus
  - two range launches per annum
- Solid stock turn
- Integrated credit and marketing strategies focus on good paying customers
- Develop long term customer relationships at store level

INVESTMENT CASE

- 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
- Proven store based collection process
- Experienced management team

Challenges to the Investment case

- Level of indebtedness of consumers
- Unemployment and slow job creation
- Regulatory environment

CORE STRENGTHS

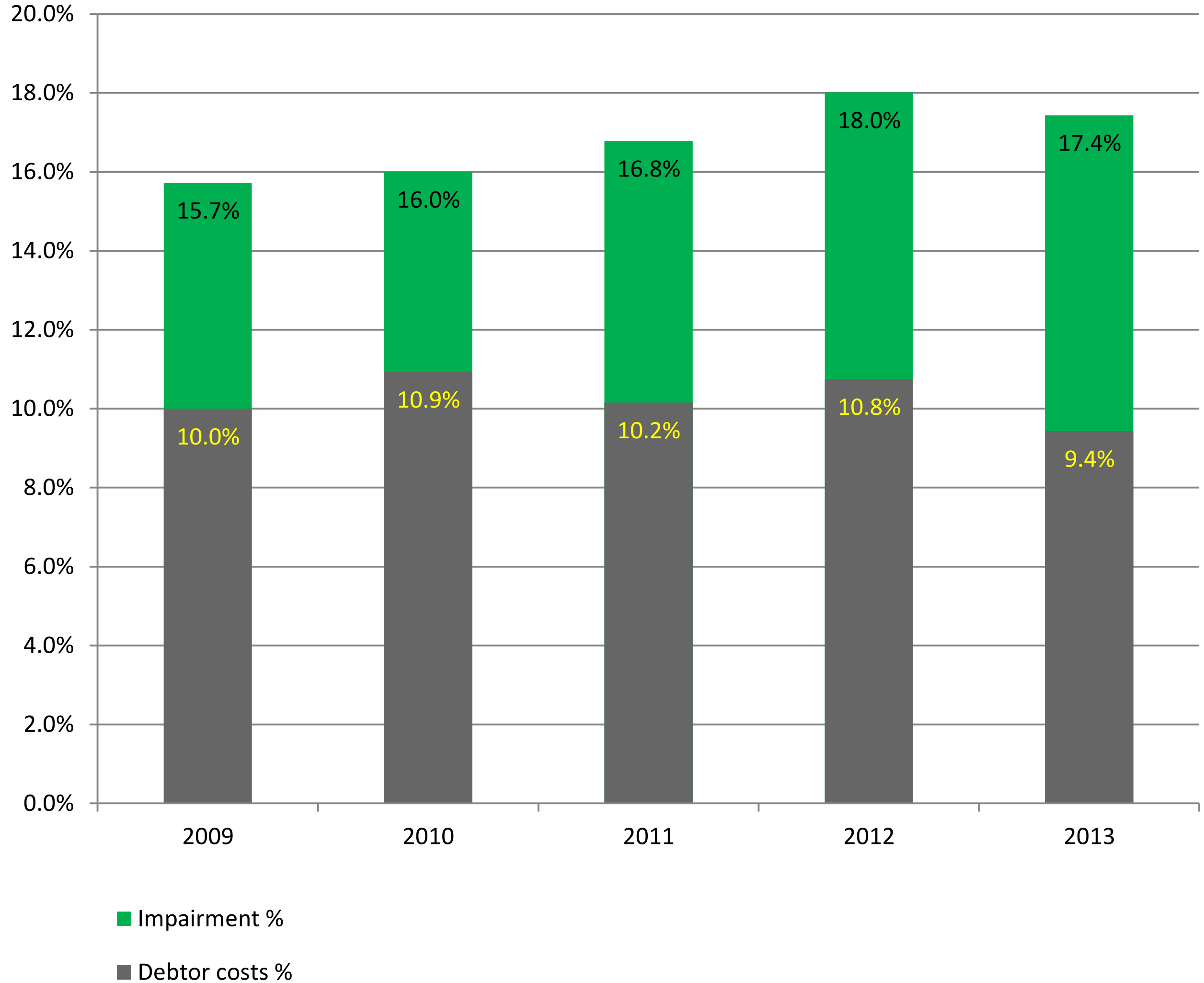
• Re-serve model	→	± 55% of sales from repeat business
• In store promotions	→	Building customer relationships and loyalty
• Convenience	→	Extensive store network
• Selection	→	Merchandise offers to meet local needs
• Small storerooms positioned close to shop	→	90% of deliveries executed within 24 hours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

Debtor Analysis

DEBTORS

- The Lewis business model is credit based with 70 – 75% of sales on credit
- 700 000 individual debtors with a debtors book of R6.3 billion
- Debtor provisions well above debtor costs

Five year history – Debtor costs vs Impairment provision



DEBTOR COSTS

	H1/2014 Rm	H1/2013 Rm
Total Debtor costs (+30%)	315	242
▪ Bad debts written off	184	35
▪ Impairment Provision	131	207
Debtor costs as a % of net debtors	5.3%	4.6%

Debtor Payment Analysis

Debtor's Payment Analysis		NUMBER OF CUSTOMERS			DISTRIBUTION OF IMPAIRMENT PROVISION			
			H1/2014	H1/2013		H1/2014	H1/2013	March 2013
Satisfactory paid	Customers fully up to date including those who have paid 70% or more of amounts due over the contract period. The provision in this category results from an *in duplum* provision.	**No.**	474 253	479 486	**Rm**	**28.2**	35.1	27.5
		%	**68.6%**	69.7%	**%**	**2.5%**	3.2%	2.8%
Slow payers	Customers who have paid between 65% and 70% of amounts due over the contract. The provision in this category ranges from **11% to 78%** of Debtors and includes an *in duplum* provision (LY: 9% to 79%).	**No.**	54 771	53 059	**Rm**	**113.3**	103.0	111.4
		%	**7.9%**	7.7%	**%**	**10.0%**	9.5%	11.2%
Non performing customers	Customers who have paid between 55% and 65% of amounts due over the period of the contract. The provision in this category ranges from **20% to 90%** of Debtors (LY 19% to 87%).	**No.**	53 021	48 268	**Rm**	**183.2**	154.5	177.9
		%	**7.7%**	7.0%	**%**	**16.3%**	14.3%	17.8%
Non performing customers	Customers who have paid 55% or less of amounts due over the contract period. The provision in this category ranges from **28% to 100%** of Debtors (LY: 27% to 100%).	**No.**	109 431	106 953	**Rm**	**803.1**	789.8	680.4
		%	**15.8%**	15.6%	**%**	**71.2%**	73.0%	68.2%
Totals			**691 476**	687 766	**Rm**	**1 127.8**	1 082.4	997.2
Total impairment provision % of net debtors					**%**	**19.0%**	20.4%	17.4%

Overview of Results

OVERVIEW OF INTERIM RESULTS – H1 2014

Revenue	Gross Profit	Operating Profit Margin	Earnings per share	Interim Dividend
R2 539 m	R441 m	R523 m	429c	215c
+ 4.5%	37.7%	20.6%	+1.7%	+ 1.4%
LY R2 429 m	LY R438 m	LY R520 m	LY 421c	LY 212c

Income Statement

	H1/2014 Rm	H1/2013 Rm	%
Revenue	2 539	2 429	4.5%
Merchandise Sales	1 169	1 161	0.7%
Gross profit margin %	37.7%	37.7%	
Operating profit (R mil)	523	520	0.6%
Operating margin %	20.6%	21.4%	
Attributable earnings (R mil)	380	374	1.7%
EPS (cents)	429	421	1.7%
Headline EPS (cents)	420	419	0.2%

Segmental Analysis

H1/2014		Group	Lewis	Best	My Home
Revenue (Rm)		2539	2 116	362	61
Revenue growth (%)		4.5%	3.8%	10%	(1.8%)
Operating profit (Rm)		523	441	75	7
Operating margin	H1:14	20.6%	20.9%	20.8%	11.0%
	H1:13	21.4%	22.1%	20.0%	6.3%
Number of stores	H1:14	627	486	128	13

Analysis of Costs – excluding Debtor Costs

	H1/2014 Rm	H1/2013 Rm	Change %
Employment costs	418	390	7.0%
Admin and IT	109	105	3.7%
Marketing	96	108	(10.9%)
Occupancy costs	123	112	9.4%
Transport/Travel	93	95	(1.4%)
Depreciation	32	30	6.8%
Other operating costs	101	103	(1.7%)
Total	972	943	3.1%
% of revenue	38.3%	38.8%	

Balance Sheet Overview

	H1/2014 Rm	H1/2013 Rm
Property, plant and equipment	331	325
Investments	1680	1 498
Inventory	391	390
Net Debtors	4934	4 357
Cash	165	109
Total assets	7 501	6 679
Shareholders' equity and reserves	5 018	4 487
Retirement benefits - net	62	54
Tax and Deferred Tax	121	131
Creditors	737	702
Interest-bearing borrowings	1 563	1 305
Total equity and liabilities	7 501	6 679

Bond Programme

- R2bn unsecured domestic medium term note programme
- Global Credit Rating Co. assigned an A(za) long term credit rating – stable outlook
- R500 mil raised across three year bond/six month CP
- Guaranteed by Lewis Stores (Pty) Ltd – major subsidiary
- Aim of the programme is to:
  - * Diversify funding sources
  - * Fund operational requirements
  - * Refinance maturing debt
  - * Lower funding costs
- Lewis operates within a gearing target of <35%

CAPITAL RATIOS

	H1/2014	H1/2013
ROE – after tax (%)	15.4%	17.0%
ROCE – after tax (%)	12.8%	14.4%
ROA – before tax (%)	15.6%	17.8%
Interim Dividend declared (cents)	215	212
Gearing ratio (%)	27.9%	26.7%

Regulatory Update

Regulatory Update

- Task Team – NCR, FSB and Treasury
- National Credit Act Amendment Bill
- Cap on both credit life insurance and asset cover
- Broader credit industry expect further deliberations with the Regulators in due course

Regulatory Update

- No detail on pricing cap has yet been discussed
- Possible effect of 10% to 12% on group profit
- Positive engagement and a speedy resolution to current uncertainty in the market is necessary

Outlook

Outlook

THIRD QUARTER TRADING UPDATE – DECEMBER 2013

	Sales	Revenue
3rd quarter	↓ 6.3%	↓ 1.5%
Year to date (9 months)	↓ 2.3%	↑ 2.1%

Debtor Costs (in line with H1)	+30%
- 9 months to December	(R 589m)

OUTLOOK

- Proven business model is a competitive advantage
- Management of the debtors book – a top priority
- Merchandise – a key focus
- Regulatory environment
- Challenging trading environment as labour unrest continues

OUTLOOK

Financial and operating targets	Actual H1/2014	Target 2014
Gross Profit margin (%)	37.7%	37.5 – 38.5
Operating costs as a % of revenue	38.3%	36 – 37
Debtor costs as a % of net debtors	5.3%	10.5 – 11.5
Operating Profit margin (%)	20.6%	23.5 – 24.5
Gearing (%)	27.9%	30 – 34

Questions