Lewis Group Ltd

UNAUDITED INTERIM RESULTS

for the six months ended 30 September 2011

REVENUE UP	GROSS PROFIT MARGIN IMPROVED FROM 35.1% TO	HEADLINE EARNINGS PER SHARE UP	INTERIM DIVIDEND 172 CENTS UP
6.7%	38.5%	13.9%	10.3%

OVERVIEW

Lewis Group encountered a challenging trading environment in the six-month period to 30 September 2011, marked by inconsistent sales patterns. Revenue for the period increased by 6.7% to R2.3 billion with merchandise sales increasing by 3.2% to R1.1 billion.

The group's gross profit margin improved from 35.1% to 38.5%, contributing to growth of 13.9% in headline earnings per share.

An interim dividend of 172 cents per share has been declared, an increase of 10.3%.

TRADING AND FINANCIAL PERFORMANCE

Trading was impacted by the shift in the timing of Easter holidays, the local government elections and industrial action over a wide front of the economy. Merchandise sales for the six-month period increased by 3.2% over the previous year.

Merchandise sales in the flagship Lewis brand, which account for 83% of total sales, increased by 4%. Best Home and Electric grew sales by 10%, with furniture comprising 34% of this brand's sales. Group sales growth was affected by the rationalisation of the Lifestyle Living brand, including the closure of three stores this year. During the period, management continued to refine the My Home business model.

Furniture and appliance sales increased by 5%. Sales of discretionary electronic goods were 5% lower, off the high base set in 2010. Credit sales as a percentage of total sales increased to 73.2% from 71.7% owing mainly to targeted customer promotions and the launch of new furniture and appliance ranges. The group will benefit from the annuity income from the higher credit sales into the future.

Revenue grew by 6.7%. Insurance income increased by 20.3% owing to the higher proportion of longer term contracts now in the debtor base. The 15.3% growth in ancillary services reflects the impact of higher maintenance fee income. Finance charges declined by 0.8% owing to a lower average interest rate in the debtors' book.

The increase of 340 basis points in the gross profit margin is attributable to better buying, the launch of new merchandise ranges and a shift in the merchandise mix to higher margin furniture sales.

Operating costs, excluding debtor costs, rose by 11.3%. Expenses were impacted by increased marketing and promotional activity to support sales, as well as higher electricity costs and increased transport costs.

Operating profit margin at 21.9% was consistent with the previous year and translated into an operating profit of R498.5 million. Headline earnings per share grew by 13.9% to 378.7 cents (2011: 332.5 cents), and includes a R12 million gain on forward exchange contracts compared to a R7 million loss in the previous year.

Cash generated from operations totalled R420 million and gearing at 26.7% (2011: 25.7%) remains well below management's maximum level of 35%.

DEBTOR MANAGEMENT

Debtor costs increased from 4.8% to 5.1% of net debtors. Collections were negatively impacted by the holidays in April and the elections in May, but gathered momentum in the latter stages of the reporting period.

An analysis of the group's debtors' book based on payment ratings shows that customers in the "satisfactory paid" category remained constant with the previous year at 71.6%. Non-performing accounts increased from 13.6% to 14.3%. These accounts remain on the debtors' book while it is economically viable to collect the outstanding debt and are covered by an average impairment provision of 98%.

The group continues to provide for the aggregate amount of insurance charges that may be impacted by the in duplum rule of the National Credit Act, pending the outcome of an application for a law change to clarify the position.

STORE EXPANSION

Ten Lewis stores and six Best Home and Electric outlets were opened in the past six months, bringing the store base to 593 at the end of September 2011. These Lewis outlets are the smaller format stores with lower cost structures and higher sales densities. All smaller format stores are performing according to expectation. The group remains on track to achieve the objective of growing the store footprint to 700 stores in the medium term.

PROSPECTS

Sales and collections for the first month of the new reporting period are showing signs of gradual improvement.

While customers' disposable income is coming under renewed pressure from higher transport, electricity and other utility costs, the response to the launch of new and exclusive merchandise ranges during the latter part of October has been encouraging. The stores are well stocked with competitively priced merchandise for the Christmas season, supported by strong marketing and promotional campaigns.

DIVIDEND DECLARATION

Notice is hereby given that an interim cash dividend of 172 cents in respect of the six months ended 30 September 2011 has been declared payable to holders of ordinary shares.

The following dates are applicable:

Last date to trade "cum" dividend	Friday, 13 January 2012
Date trading commences "ex" dividend	Monday, 16 January 2012
Record date	Friday, 20 January 2012
Date of payment	Monday, 23 January 2012

Share certificates may not be dematerialised or rematerialised between Monday, 16 January 2012 and Friday, 20 January 2012.

For and on behalf of the board.

David Nurek
Chairman

Johan Enslin
Chief Executive Officer

Cape Town
14 November 2011

Executive directors: J Enslin (Chief Executive Officer), L A Davies (Chief Financial Officer). **Non-executive directors:** D M Nurek (Chairman) (Ind.), H Saven (Ind.), B J van der Ross (Ind.), Professor F Abrahams (Ind.), Z B M Bassa (Ind.), M S P Marutlulle (Ind.), A J Smart. **Company secretary:** M G McConnell. **Transfer secretaries:** Computershare Investor Services (Pty) Ltd, 70 Marshall Street, Johannesburg, 2001; PO Box 61051, Marshalltown, 2107. **Auditors:** PricewaterhouseCoopers Inc. **Sponsor:** UBS South Africa (Pty) Ltd. **Registered office:** 53A Victoria Road, Woodstock, 7925. **Registration number:** 2004/009817/06. **Share code:** LEW. **ISIN:** ZAE000058236

Lewis | BEST HOME AND ELECTRIC | My Home | Monarch Insurance Company Ltd.

CONDENSED UNAUDITED INTERIM RESULTS

INCOME STATEMENT

	Notes	6 months ended 30 Sep 2011 Rm Unaudited	% change	6 months ended 30 Sep 2010 Rm Unaudited	12 months ended 31 Mar 2011 Rm Audited
Revenue		2 278.7	6.7%	2 136.0	4 577.7
Merchandising sales		1 091.2		1 057.8	2 290.3
Finance charges earned		446.4		450.1	919.6
Insurance premiums earned		405.2		336.7	752.4
Ancillary services		335.9		291.4	615.4
Cost of merchandise sales		(670.9)		(686.9)	(1 458.6)
Operating costs		(1 109.3)		(980.2)	(2 066.6)
Employment costs		(360.0)		(328.2)	(693.5)
Administration and IT		(106.1)		(101.4)	(208.1)
Debtor costs	2	(247.4)		(206.0)	(458.9)
Marketing		(97.9)		(81.0)	(156.5)
Occupancy costs		(98.0)		(88.2)	(186.1)
Transport and travel		(83.4)		(68.9)	(147.5)
Depreciation		(27.2)		(27.4)	(46.5)
Other operating costs		(89.3)		(79.1)	(169.5)
Operating profit		498.5	6.3%	468.9	1 052.5
Investment income		34.6		30.5	82.0
Profit before finance costs		533.1		499.4	1 134.5
Net finance costs	3	(30.6)		(57.5)	(91.9)
Profit before taxation		502.5		441.9	1 042.6
Taxation		(165.1)		(146.4)	(330.7)
Net profit attributable to ordinary shareholders		337.4	14.2%	295.5	711.9
Reconciliation of headline earnings					
Net profit attributable to ordinary shareholders		337.4		295.5	711.9
Adjusted for					
Surplus on disposal of property, plant and equipment		(3.2)		(3.9)	(7.2)
Disposal of available-for-sale assets		(0.4)		0.6	(19.2)
Tax effect		0.9		0.9	3.4
Headline earnings		334.7	14.2%	293.1	688.9
Number of ordinary shares (000)					
In issue		98 058		98 058	98 058
Weighted average		88 392		88 152	88 194
Diluted weighted average		89 272		88 857	89 185
Earnings per share (cents)		381.7	13.9%	335.2	807.2
Headline earnings per share (cents)		378.7	13.9%	332.5	781.1
Diluted earnings per share (cents)		377.9		332.6	798.2
Diluted headline earnings per share (cents)		374.9		329.9	772.4

STATEMENT OF COMPREHENSIVE INCOME

	6 months ended 30 Sep 2011 Rm Unaudited	6 months ended 30 Sep 2010 Rm Unaudited	12 months ended 31 Mar 2011 Rm Audited
Net profit for the period	337.4	295.5	711.9
Fair value adjustments:	(0.2)	41.0	38.1
Fair value adjustments of available-for-sale investments	2.0	51.0	42.8
Tax effect	(2.2)	(10.0)	(4.7)
Disposals recognised:	(0.3)	0.4	(17.8)
Disposal of available-for-sale investments	(0.4)	0.6	(19.2)
Tax effect	0.1	(0.2)	1.4
Foreign currency translation reserve	2.4	(2.1)	(4.1)
Total comprehensive income for the period	339.3	334.8	728.1

KEY RATIOS

	6 months ended 30 Sep 2011	6 months ended 30 Sep 2010	12 months ended 31 March 2011
Operating efficiency ratios			
Gross profit margin %	38.5%	35.1%	36.3%
Operating profit margin %	21.9%	22.0%	23.0%
Number of stores	593	565	582
Number of permanent employees (average)	6 981	6 785	6 842
Trading space (sqm)	231 290	228 290	231 184
Inventory turn	4.7	5.2	5.7
Current ratio	3.3	3.3	3.4
Credit ratios			
Credit sales %	73.2%	71.7%	71.4%
Debtor costs as a % of net debtors	5.1%	4.8%	10.2%
Debtors' impairment provision as a % of net debtors	19.8%	18.4%	16.8%
Arrear instalments on satisfactory accounts as a percentage of net debtors	10.1%	9.4%	10.1%
Arrear instalments on slow-paying and non-performing accounts as a percentage of net debtors	23.9%	22.6%	19.9%
Debtors' impairment provision on non-performing accounts	81.2%	79.7%	78.8%
Credit applications decline rate	32.4%	31.1%	31.5%
Shareholder ratios			
Net asset value per share (cents)	4 404	3 924	4 225
Gearing ratio	26.7%	25.7%	26.8%
Dividend cover	2.0	1.9	2.0
Return on average equity (after-tax)	17.6%	17.6%	20.3%
Return on average capital employed (after-tax)	14.6%	15.6%	17.2%
Return on average assets managed (pre-tax)	18.6%	19.8%	21.8%

Notes:
1. All ratios are based on figures at the end of the period unless otherwise disclosed.
2. The net asset value has been calculated using 88 538 000 shares in issue (2010: 88 238 000).
3. The total assets exclude the deferred tax asset.

BALANCE SHEET

	Notes	30 Sep 2011 Rm Unaudited	30 Sep 2010 Rm Unaudited	31 March 2011 Rm Audited
Assets				
Non-current assets				
Property, plant and equipment		297.8	268.7	278.7
Deferred taxation		22.4	8.6	20.1
Investments – insurance business	5	879.6	813.3	857.1
		1 199.8	1 090.6	1 155.9
Current assets				
Inventories		307.7	265.1	256.3
Trade and other receivables	4	3 982.2	3 611.0	3 835.0
Investments – insurance business	5	295.1	171.1	240.2
Cash on hand and deposits		111.2	84.2	84.3
		4 696.2	4 131.4	4 415.8
Total assets		5 896.0	5 222.0	5 571.7
Equity and liabilities				
Capital and reserves				
Shareholders' equity and reserves		3 899.2	3 462.9	3 728.1
Non-current liabilities				
Long-term interest-bearing borrowings	6	400.0	350.0	400.0
Deferred taxation		91.4	88.4	85.1
Retirement benefits		63.7	52.8	59.4
		555.1	491.2	544.5
Current liabilities				
Trade and other payables	7	645.9	601.4	567.0
Taxation		42.8	43.0	49.1
Short-term interest-bearing borrowings	6	753.0	623.5	683.0
		1 441.7	1 267.9	1 299.1
Total equity and liabilities		5 896.0	5 222.0	5 571.7

CASH FLOW STATEMENT

	Notes	6 months ended 30 Sep 2011 Rm Unaudited	6 months ended 30 Sep 2010 Rm Unaudited	12 months ended 31 Mar 2011 Rm Audited
Cash generated from operations	8	419.4	413.1	777.0
Dividends and interest received		35.5	32.7	66.0
Finance costs		(31.9)	(59.1)	(95.1)
Taxation paid		(169.5)	(141.9)	(328.0)
Cash retained from operating activities		253.5	244.8	419.9
Cash outflow from investing activities	9	(118.5)	(80.4)	(227.3)
Cash outflow from financing activities	10	(28.1)	(154.5)	(292.1)
Net increase in cash and cash equivalents		106.9	9.9	(99.5)
Cash and cash equivalents at the beginning of the period		(348.7)	(249.2)	(249.2)
Cash and cash equivalents at the end of the period		(241.8)	(239.3)	(348.7)

STATEMENT OF CHANGES IN EQUITY

	6 months ended 30 Sep 2011 Rm Unaudited	6 months ended 30 Sep 2010 Rm Unaudited	12 months ended 31 Mar 2011 Rm Audited
Share capital and premium	96.9	93.5	93.5
Opening balance	93.5	93.5	93.5
Share awards to employees	3.4	–	–
Other reserves	215.0	215.3	207.1
Opening balance	207.1	171.3	171.3
Other comprehensive income:			
Fair value adjustments of available-for-sale investments	(0.2)	41.0	38.1
Disposal of available-for-sale investments recognised	(0.3)	0.4	(17.8)
Foreign currency translation reserve	2.4	(2.1)	(4.1)
Share-based payment	9.9	8.9	18.4
Transfer from share-based payment reserve to retained income on vesting	(6.0)	(8.4)	(8.4)
Transfer to contingency reserve from retained earnings	2.1	4.2	9.6
Retained earnings	3 587.3	3 154.1	3 427.5
Opening balance	3 427.5	3 008.9	3 008.9
Net profit attributable to shareholders	337.4	295.5	711.9
Profit on sale of own shares	2.8	3.4	3.5
Share awards to employees	(1.1)	–	–
Transfer of share-based payment reserve on vesting	6.0	8.4	8.4
Transfer to contingency reserve	(2.1)	(4.2)	(9.6)
Distribution to shareholders	(183.2)	(157.9)	(295.6)
Balance at the end of the period	3 899.2	3 462.9	3 728.1

DEBTORS' ANALYSIS

The company applies a payment rating assessment to each customer individually, which categorises customers into 13 payment categories. This assessment is integral to the calculation of the debtors' impairment provision. The 13 payment categories have been summarised into four main groupings of customers.

An analysis of the debtors' book based on the payment ratings is set out below:

Debtors' payment categories		Number of customers Sep 2011	Number of customers Sep 2010	Impairment provision % Sep 2011	Impairment provision % Sep 2010	Impairment provision % Mar 2011
Satisfactory paid Customers fully paid up to date including those who have paid 70% or more of amounts due over the contract period.	No. %	512 825 71.6%	510 722 71.6%	1%	0%	1%
Slow payers Customers who have paid between 70% and 65% of amounts due over the contract period.	No. %	53 625 7.5%	55 380 7.8%	28%	25%	27%
Non-performing customers Customers who have paid between 65% and 55% of amounts due over the contract period.	No. %	46 847 6.6%	50 302 7.0%	44%	44%	44%
Non-performing customers Customers who have paid 55% or less of amounts due over the contract period.	No. %	102 492 14.3%	97 062 13.6%	98%	98%	98%
		715 789	713 466	19.8%	18.4%	16.8%

The debtors' impairment provision is allocated to the summary categories based on the number of customers.

SEGMENTAL REPORT

Reportable segments	Lewis Rm	Best Home and Electric Rm	My Home Rm	Total Rm
For 6 months ended 30 September 2011 (unaudited)				
Revenue	1 917.2	305.1	56.4	2 278.7
Operating profit	435.9	63.9	(1.3)	498.5
Operating profit margin	22.7%	20.9%	(2.3%)	21.9%
Segment assets	3 556.6	525.2	105.2	4 187.0
For 6 months ended 30 September 2010 (unaudited)				
Revenue	1 796.0	273.7	66.3	2 136.0
Operating profit	413.1	52.7	3.1	468.9
Operating profit margin	23.0%	19.3%	4.7%	22.0%
Segment assets	3 245.6	453.3	84.4	3 783.3
For the 12 months ended 31 March 2011 (audited)				
Revenue	3 853.5	588.5	135.7	4 577.7
Operating profit	919.7	126.0	6.8	1 052.5
Operating profit margin	23.9%	21.4%	5.0%	23.0%
Segment assets	3 422.3	491.5	102.3	4 016.1

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of accounting

The group's interim financial statements have been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards, including IAS 34 (Interim Financial Reporting) and in compliance with the Listings Requirements of the JSE Limited. The accounting policies applied are consistent with those applied in the annual financial statements for the year ended 31 March 2011. The comparatives in the cash flow statement for September 2010 have been reclassified to exclude the short-term portion of long-term borrowings from cash and cash equivalents.

	30 Sept 2011 Rm Unaudited	30 Sept 2010 Rm Unaudited	31 March 2011 Rm Audited
2. Debtor costs			
Bad debts, bad debt recoveries and repossession losses	49.5	47.9	336.0
Movement in debtors' impairment provision	197.9	158.1	122.9
	247.4	206.0	458.9
3. Net finance costs			
Interest paid	43.9	51.9	87.1
Interest earned	(1.3)	(1.6)	(3.2)
(Gains)/losses on forward exchange contracts	(12.0)	7.2	8.0
	30.6	57.5	91.9
4. Trade and other receivables			
Instalment sale and loan receivables	5 822.4	5 133.4	5 454.7
Provision for unearned finance charges and unearned maintenance income	(281.3)	(231.6)	(271.4)
Provision for unearned initiation fees	(105.2)	(91.9)	(102.6)
Provision for unearned insurance premiums	(600.4)	(498.2)	(562.6)
Net instalment sale and loan receivables	4 835.5	4 311.7	4 518.1
Debtors' impairment provision	(956.2)	(793.5)	(758.3)
Net trade receivables	3 879.3	3 518.2	3 759.8
Other receivables	102.9	92.8	75.2
	3 982.2	3 611.0	3 835.0

The credit terms of instalment sale and loan receivables range from 6 to 36 months (2010: 6 to 36 months). Amounts due from instalment sale and loan receivables after one year are reflected as current, as they form part of the normal operating cycle.

The average effective interest rate on instalment sale and loan receivables is 23.1% (2010: 26.2%) and the average term of a sale is 28.1 months (2010: 27.8 months)

	30 Sept 2011 Rm Unaudited	30 Sept 2010 Rm Unaudited	31 March 2011 Rm Audited
5. Investments – insurance business			
Listed:			
Equities	369.2	333.6	365.2
Fixed income securities	510.4	479.7	491.9
Unlisted:			
Money market investments	295.1	171.1	240.2
	1 174.7	984.4	1 097.3
Analysed as follows:			
Non-current	879.6	813.3	857.1
Current	295.1	171.1	240.2
	1 174.7	984.4	1 097.3

Investments are classified as available-for-sale and are reflected at fair value. Changes in fair value are reflected in the statement of comprehensive income.

	30 Sept 2011 Rm Unaudited	30 Sept 2010 Rm Unaudited	31 March 2011 Rm Audited
6. Borrowings			
Unsecured long-term borrowings at interest rates linked to the 3 month JIBAR	400.0	350.0	400.0
Unsecured short-term borrowings at interest rates linked to the 3 month JIBAR	753.0	623.5	683.0
Demand loans	353.0	323.5	433.0
Current portion of fixed-term borrowings	400.0	300.0	250.0
	1 153.0	973.5	1 083.0
7. Trade and other payables			
Trade payables	90.7	140.6	72.7
Accruals and other payables	215.8	174.8	178.1
Due to reinsurers	150.7	132.2	144.8
Insurance provisions	188.7	153.8	171.4
	645.9	601.4	567.0
8. Cash generated from operations			
Operating profit	498.5	468.9	1 052.5
Adjusted for:			
Share-based payment	9.9	8.9	18.4
Depreciation	27.2	27.4	46.5
Surplus on disposal of property, plant and equipment	(3.2)	(3.9)	(7.2)
Movement in debtors' impairment provision	197.9	158.1	122.9
Movement in retirement benefits provision	4.3	1.0	7.6
Movement in other provisions	29.3	30.7	54.9
	763.9	691.1	1 295.6
Changes in working capital:	(344.5)	(278.0)	(518.6)
Increase in inventories	(59.4)	(61.0)	(51.0)
Increase in trade and other receivables	(342.7)	(343.6)	(534.4)
Increase in trade and other payables	57.6	126.6	66.8
	419.4	413.1	777.0
9. Cash outflow from investing activities			
Net additions to insurance business investments	75.4	39.3	160.4
Acquisition of property, plant and equipment	48.9	46.4	78.6
Proceeds on disposal of property, plant and equipment	(5.8)	(5.3)	(11.7)
	118.5	80.4	227.3
10. Cash outflow from financing activities			
Dividends paid	183.2	157.9	295.6
Proceeds on sale of own shares	(5.1)	(3.4)	(3.5)
Increase in long-term borrowing	–	–	(50.0)
(Increase)/decrease in short-term borrowings	(150.0)	–	50.0
	28.1	154.5	292.1

These results are also available on our website: www.lewisgroup.co.za