

## **LEWIS GROUP LIMITED**

### **ANNUAL GENERAL MEETING 2015**

#### **Introductory comments from the Chairman, David Nurek**

Over the past month the media has reported extensively on allegations and statements made in relation to the Lewis Group. The source of these allegations has been Summit Financial Partners represented by Mr Clark Gardner and Mr David Woollam. Mr Woollam has also compiled a report titled *'Fact or Fiction'*, which has been widely distributed to the media, the investment community and industry regulators. Earlier this week he issued a further report entitled *'The Emperor's New Clothes'*, primarily to address the contents of our SENS announcement released on Friday 7 August.

Mr Woollam has indicated, in both of his reports, that he intends to direct the questions that he has posed in those documents, to the Board at this annual general meeting ("AGM"). Lewis wishes to deal with those questions.

Mr Woollam served as an executive director of African Bank Investments Ltd ("ABIL") from 2002 until his resignation on 31 December 2010 when he became a consultant to ABIL. We understand that he oversaw the acquisition of Ellerines by the Bank.

Mr Woollam is not only a non-executive director of Summit. We understand that he is presently the non-executive chairman of Bayport South Africa which claims to be one of the largest non-bank providers of unsecured credit and allied products in South Africa. Mr Woollam's interest in this matter is therefore, not entirely altruistic.

Lewis has carefully considered Mr Woollam's various comments and contentions and engaged with its auditors in relation to his numerous complaints regarding the company's annual financial statements.

As a Board, we are firmly of the view that the consolidated financial statements present fairly, in all material respects, the consolidated financial position and performance of the Lewis Group in accordance with International Financial Reporting Standards ("IFRS"), a view which is shared by our auditors.

The consolidated financial statements of Lewis Group Ltd. for the 2015 financial year have been audited by PricewaterhouseCoopers Inc., the group's auditors, who have expressed an opinion that the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Lewis Group Ltd. as at 31 March 2015 and its consolidated financial performance for the year then ended in accordance with IFRS and the requirements of the Companies Act of South Africa.

We want to address the various issues raised by Mr Woollam in both his documents. His complaints can be summarised under three broad headings.

## **1. Lewis' Revenue Recognition Policies**

Allegations have been made in relation to accounting for customer protection insurance, and reinsurance commission on an upfront basis, and also aggressive income recognition policies for delivery fees and extended warranty fees. As I have already said, the Board, having considered these allegations is firmly of the view that Company's financial statements present fairly, in all material respects, the consolidated financial position and performance of the group in accordance with IFRS.

The matter before shareholders today is the adoption of the Annual Financial Statements of the group, as at 31 March 2015 as presented at today's meeting. The Company and its auditors are satisfied that the accounts fairly represent the financial position of the Company and complies with IFRS. The auditors have come to this view after consideration of the issues raised and in consultation with their technical department. Plainly, Mr Woollam, you do not share that view. An endless debate on this topic will certainly not serve any purpose in this forum but if you, or any other shareholder, wishes to vote against the adoption of the Annual Financial Statements you are free to do so.

Mr Woollam has already referred all of his concerns and objections in relation to the annual financial statements to the Financial Services Board ("FSB"). The company is proactively engaging with the FSB in regard to all relevant issues. In the light of that process, which is currently under way, it would be inappropriate for us to respond to the many questions raised by Mr Woollam. Suffice it to say that we are firmly of the view that Mr Woollam's allegations are without foundation.

## **2. Debtors' impairment provision**

Mr Woollam has alleged that the debtor impairment provision levels appear much less conservative than other credit providers. Given Mr Woollam's history in African Bank this is, indeed, an astonishing statement.

Before addressing this issue I think it is appropriate to reflect on the fact that Lewis is iconic, not only in the furniture industry but in relation to South African retail commercial enterprises, having been in existence for more than 80 years. The Company has consistently followed its debtor management policies with great success, whilst adapting to changes in the economic environment and taking into consideration changes in accounting standards. The Company's management are exceptionally skilled in dealing with difficult economic circumstances, having been through similar periods of turmoil before, including

the global credit crisis of 2008 and 2009, and are fully focused on the impact which such conditions can have on a debtors book.

Lewis is first and foremost a retailer that offers financial services, and not a financial services company that tries to offer retail. We believe this is a fundamental difference.

The Company continually reviews its impairment provision for instalment sale and loan receivables. We confirm that the provision conforms with the requirements of IAS 39 which governs the recognition and measurement of financial instruments including loans and receivables.

Mr Woollam in one of his documents points out “that the collapse of African Bank and Ellerines are timely reminders that success in this market is not measured by the amount of money you lend, but rather, by the amount you collect back”. Frankly, we could not have said it better ourselves.

Lewis Group has generated consistently positive cash flows and over the last 10 years has generated close to R4 billion in cash from its operating activities.

The Company’s gearing has consistently ranged between 23% and 30%, or better, over the last ten years. Everyone will agree that this is a conservative ratio and a good indication that our debt management policies and impairment methodology adequately caters for the changing debt environment. The Company’s gearing has improved from a position of just under 30% in 2013 to approximately 23% in 2015, a period during which the Company offered its longer term 36 month product for the first time. Ordinarily this product launch would have resulted in increases in gearing to 2015, but this was not the case. The improved gearing position was supported by our tried and tested debt management systems and store-based collection processes in a very difficult period of widespread labour unrest and high unemployment.

I have been chairman of Lewis Group since its listing in 2004 and can confirm that debtor costs, which include the annual bad debt write-off and impairment charge, have never exceeded the impairment provision raised at the end of the preceding year. We believe that this is proof that the group adequately provides for bad debts and there is no need to increase our provisions or to amend our provisioning policy.

Mr Woollam alleges that the Lewis Group materially overstates its profits in amounts running to hundreds of millions of Rands. The Lewis Group pays real taxes on these allegedly fictitious profits in amounts running to hundreds of millions of Rands and pays real dividends to its shareholders, twice a year, in amounts also running to hundreds of millions of Rands. In addition, it continues to invest, every year, in expanding its business by opening new stores and incurring significant amounts of capital expenditure to maintain and develop its

business. If Mr Woollam's allegations, ranging from the granting of reckless credit to the overstating of income, are even remotely correct, it is inconceivable that the Lewis Group's positive cash flows and continued conservative gearing ratios could be maintained at these levels. It is simply not possible. The obvious and only explanation is that there is no substance to any of Mr Woollam's allegations.

### **3. Potential breaches of the National Credit Act ("NCA")**

Messrs Woollam and Gardner of Summit have made various allegations regarding what they claim is conduct by Lewis in breach of the NCA. I reiterate the obvious in stating that the National Credit Regulator is the body established by Parliament to ensure compliance with the NCA. It is certainly not appropriate for Messrs Woollam and Gardner to make untested allegations of breaches of the NCA in the media, as they have done. Indeed, Mr Gardner, in a radio interview on Wednesday evening made wildly scurrilous allegations about the Company in this regard. The Company is taking legal advice in this regard and will pursue appropriate remedies.

These accusations are patently false and quite obviously defamatory of the Company and its management. As you all know, the Company is presently involved in a matter before the National Consumer Tribunal, and it is obviously inappropriate to debate this issues in this forum. The Company has every intention of dealing with allegations of this nature in the appropriate forum and at the appropriate time.

Lewis reiterates that it has not acted in contravention of the NCA, and will use the appropriate legal channels to defend its position should the need arise. The question of capping of insurance policy premiums is a matter currently under investigation by the relevant regulatory body and the Lewis Group is participating actively in this process. As is our policy we will comply with any changes which may be effected to the legislative or regulatory environment.

Inasmuch as Mr Woollam is present with us today, it is apposite to touch on but one of his allegations, which is completely untrue. Mr Woollam alleges that Lewis does not perform proper affordability assessments on potential customers. Mr Woollam has referred to the R10 entry at store level in relation to his priority living expenses for purposes of his credit application, and he has made a very big issue of this, contending that Lewis grants excessive or reckless credit to vulnerable consumers who would not be in a position to meet their commitments.

What Mr Woollam has not made public is what actually transpired in relation to his credit application. In terms of section 68 of the NCA, Lewis is unable to advise you of the outcome unless Mr Woollam consents to us doing so. I extend an invitation to Mr Woollam to allow me to share the outcome of his credit application with the shareholder body. I would be astonished if Mr Woollam would decline to give such consent, given that he has already provided

exhaustive detail to the media, of his mystery shopping experience, which includes the completion of his credit application.

Thank you Mr Woollam for your consent and I can now share with the meeting that the R10 entered at store level was changed to R3 999 at head office level through the application of the internal expense table. Mr Woollam's application for credit was declined.

As we have articulated fully in our SENS announcement, all credit applications are considered at Head Office level, where all expenses are checked for reasonableness against Lewis' internal data table. Moreover, all credit bureau information is accessed by the company and reviewed. Where the expenses provided by the customer, or inserted at store level, are in conflict with the internal data table, in being too low, they are automatically adjusted in line with the company's internal data to reflect the fair and reasonable expenses of consumers, with reference to their income and other factors.

The decision to grant or reject the application is then taken. In the review period, Lewis has responsibly declined more than 40% of all credit applications.

The system of credit approval is designed to avoid manipulations to ensure that any credit which is actually granted, is granted responsibly in accordance with Lewis' obligations in terms of the NCA.

Lewis takes its responsibilities under the NCA very seriously, and where it is brought to the attention of the company that its policies are not being followed by staff, disciplinary action is taken. Lewis conducts its own mystery shopping experiences and this process will be further enhanced to ensure that any breaches in policy are detected and dealt with immediately.

### **Total cost of credit**

Allegations have been leveled that the total cost of credit in Lewis is excessive.

Lewis is transparent in disclosing the total cost of credit on all contracts, including separate disclosure of the cost of merchandise, interest charges and any other charges including, where applicable, credit life insurance, product insurance, delivery fees, and extended warranties. Even our advertising material reflects the cost of merchandise separately from the total cost of credit. In addition, the total cost of credit and affordability is explained to all customers before a credit agreement is completed.

Where regulated, all our fees and charges are within the permissible levels, and where fees and charges are not regulated, these are market related.

Approximately 50% of our sales are to existing Lewis customers and we believe this high level of loyalty indicates customer satisfaction with our merchandise and our credit offering.

### **Referral to the National Consumer Tribunal**

I would like to address the National Credit Regulator's ("NCR") referral of a complaint relating to two of Lewis' operating subsidiaries, namely Lewis Stores Proprietary Limited and Monarch Insurance Company Limited to the National Consumer Tribunal ("Tribunal").

This issue was comprehensively addressed in an announcement released by us on SENS on 7 August 2015. To summarise the key points made in that SENS announcement:

1. Lewis and Monarch are opposing the referral on the basis that it is patently untrue and that there is no factual basis to underpin the allegation made by the NCR that the sale of loss of employment insurance by Lewis to pensioners and self-employed persons, was fraudulent and deceitful, and was done with the intention to defraud consumers.
2. Lewis and Monarch have also disputed that they have committed a contravention of the NCA in this regard.
3. We have conducted an internal investigation going back to June 2007 and determined that in a minority of cases loss of employment insurance policies were sold to pensioners and self-employed persons. This was done through human error and contrary to Lewis' own internal policies which expressly prohibit the sale of these policies to these consumers.
4. We are currently completing the calculations but at this stage we estimate that an approximate amount of R46 million in premiums and interest of R23 million will be refunded to consumers. We reiterate that this in respect of the 8 year period since the inception of the NCA. This represents less than 1% of all insurance premiums earned over this period.
5. In relation to disability insurance, Lewis and Monarch have rejected the NCR's allegation that the sale of disability insurance to pensioners and self-employed persons constitutes a contravention of the NCA. Notwithstanding the NCR's allegations in this regard claims by pensioners and self-employed persons in respect of disability policies have been and continue to be honoured by Monarch.

I speak for the entire board and executive team of Lewis when I say that any allegations of contraventions of the NCA are a source of great concern to the Company. The Company has very clear policies in place to ensure that its staff at branch level, who interact with Consumer on a daily basis, must comply with the Company's obligations under the NCA. The Company is in the process of enhancing its control mechanisms to early identify and minimise any such conduct in the future.

This response exhaustively addresses the issues raised by Mr Woollam and Summit Financial Partners.

Cape Town  
14 August 2015