



2019 UNAUDITED INTERIM RESULTS

FOR THE SIX MONTHS
ENDED 30 SEPTEMBER



Lewis
Group Ltd



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Highlights



Revenue
^
6.1%



Merchandise sales
^
6.4%

Gross profit margin
at
40.3%



Operating profit
^
25.7%
(8.9% excluding the impact of IFRS16)

Headline earnings
^
14.4%



Interim dividend
^
14.3%
to 120 cents per share

Key features

Diversification strategy continued to gain momentum

Merchandise sales – up 6.4%

- Traditional retail brands – sales growth of 3.7%
- Cash retail (UFO) R250.6m – sales growth of 8.8%
- Omni channel retail (INspire) – R35.7m
- Credit sales growth of 8.1%

Other revenue – up 5.8%

- Insurance premium capping in the base

Gross profit margin – 40.3% (LY: 39.9%)

- New product ranges and exclusivity supported margin
- Competitive sourcing internationally and locally

Key features

Sales patterns for the period

- Furniture 63.0% (LY: 61.5%)
- Appliances 23.7% (LY: 23.9%)
- Audio-visual 13.3% (LY: 14.6%)

Trading out of 787 store outlets (LY: 779 stores)

- 121 stores outside SA (LY:116 stores)
- 218 Small format Lewis stores (45% of total Lewis stores)
- 107 stores refurbished

Credit application decline rate 37.9% (LY: 38.5%)

Credit sales mix 58.1% (LY: 57.2%)

Key features

Debtor costs as a % of debtors at gross carrying value	5.5% (LY: 5.5%)
Satisfactory paid customers as a % of total customers	74.2% (LY:69.9%)
▪ Best since September 2008	

Expense control

- High focus area
- Within management's target range of 6% - 8%

Share repurchase programme

- 10.6 million shares repurchased since October 2016

Gearing

- Comparable basis: ungeared balance sheet
- Unborrowed

Key features

Adoption of IFRS16-Leases

- No impact on the Business Model
- Recognition of almost all operating leases on balance sheet as lease liabilities and related right-of-use assets

Financial impact as at 1 April 2019	
Increase in liabilities	(R825.9m)
Increase in assets	R733.1m
Net impact on net asset value	R 92.8m
Decrease in retained earnings	R 92.8m

- Attributable profit decreased by R4.1m for the reporting period
- Lease portfolio close to the mid-way point of maturity
- Future impact not expected to be material



Debtor analysis

- Debtor performance
- Gross debtor analysis



Debtor performance

	H1/2020	H1/2019
Collections (Rm)		
Collections from instalment sales	2 078	2 011
Actual collections achieved		
As a % of one contract instalment per customer per month	79.6%	77.2%
Contractual arrears (Rm)	1 936	2 177
% of gross debtors	35.9%	40.2%
Debtor Costs (Rm)		
Debtor costs (excl. credit impairment adjustment (-1.5%))	346	352
▪ Bad debts written off (including recoveries)	518	416
▪ Debtors impairment provision	(172)	(64)
▪ Credit impairment adjustment	(47)	(51)
Total Debtor costs (-0.4%)	299	301
Debtor costs as a % of debtors at gross carrying value	5.5%	5.5%

Gross debtor analysis

Customer grouping		Number of customers Total	Gross carrying value R'000	Impairment provision R'000	Impairment provision %	Total arrears R'000	Instalments in arrears			
							1 R'000	2 R'000	3 R'000	>3 R'000
Satisfactory paid Customers who have paid 70% or more of amounts due over the contract period	2020	426 782	3 374 370	679 125	20.1%	541 164	159 109	109 560	79 892	192 603
	%	74.2%	62.5%							
	2019	408 005	3 103 155	666 767	21.5%	530 205	148 582	102 629	75 903	203 091
	%	69.9%	57.2%							
Slow payers Customers who have paid 55% to 70% of amounts due over the contract period	2020	82 152	904 682	545 552	60.3%	568 416	65 057	62 040	58 683	382 636
	%	14.3%	16.8%							
	2019	91 370	958 938	571 465	59.6%	633 196	67 912	64 902	61 756	438 626
	%	15.6%	17.7%							
Non-performing accounts Customers who have paid less than 55% of amounts due over the contract period	2020	66 037	1 120 505	926 625	82.7%	826 496	56 473	55 327	54 424	660 272
	%	11.5%	20.7%							
	2019	84 568	1 358 540	1 119 257	82.4%	1 013 893	65 006	64 349	63 654	820 884
	%	14.5%	25.1%							
Gross debtor analysis	2020	574 971	5 399 557	2 151 302	39.8%	1 936 076	280 639	226 927	192 999	1 235 511
	2019	583 943	5 420 633	2 357 489	43.5%	2 177 294	281 500	231 880	201 313	1 462 601



Financial results

- Income statement
- Segmental analysis
- Analysis of costs
- Balance sheet overview
- Key ratios






Income statement

	H1/2020	H1/2019	%
Revenue (Rm)	3 083	2 905	6.1%
Merchandise sales (Rm)	1 735	1 631	6.4%
Gross profit margin	40.3%	39.9%	
Operating profit (Rm)*	244	194	25.7%
Operating profit margin	7.9%	6.7%	
Attributable earnings (Rm)	171	150	13.7%
EPS (cents)	215	182	18.3%
*Operating profit (excluding the IFRS 16 impact)	211	194	8.9%

Segmental analysis



		 Traditional retail	 Cash retail	 Omni channel
	Group			
Revenue (Rm)	3 083.2	2 781.5	255.4	46.3
Merchandise sales (Rm)	1 735	1 448.7	250.6	35.7
Operating profit/(loss) (Rm)	243.5	229.2	27.5	(13.2)
Operating margin H1:20	7.9%	8.2%	10.8%	(28.5%)
Operating margin H1:19	6.7%	7.0%	9.2%	-
Number of stores H1:20	787	748	39	-
Number of stores H1:19	779	746	33	-

Analysis of costs (excluding debtor costs)

	H1/2020 Rm	H1/2019 Rm	%
Employment costs	599	565	6.0%
Admin and IT	189	170	10.8%
Marketing	183	161	13.5%
Occupancy costs	73	221	(66.8)% *
Transport and travel	127	116	9.7%
Depreciation	168	38	338% *
Other operating costs	165	159	4.1%
Total	1 504	1 430	5.2%

* Variance as a result of adoption of IFRS 16

On a comparable basis (excl IFRS 16 Impact) expenses increased by 7.5%

Comparable expenses in traditional retail increased by 6.5%

Balance sheet overview

	H1/2020 Rm	H1/2019 Rm
Property, equipment, goodwill and trademarks	625	608
Right-of-use assets	678	-
Inventory	806	751
Trade and other receivables	3 385	3 347
Cash on hand	243	544
Other assets	758	887
Total assets	6 495	6 137
Shareholders' equity and reserves	4 781	4 838
Trade and other payables	792	674
Interest-bearing borrowings	-	502
Lease liabilities	813	
Other liabilities	109	123
Total equity and liabilities	6 495	6 137

Key ratios

	H1/2020	H1/2019	%
HEPS (cents)	215	181	18.9%
ROE – after tax	7.1%	6.2%	
ROCE – after tax	7.0%	5.4%	
ROA – before tax	8.9%	7.2%	
Gearing ratio	*11.9%	Ung geared	
Interim dividend declared (cents)	120	105	14.3%

* Ung geared on a comparable basis



Targets and outlook



Financial and operating targets

	Actual H1/2020	Target 2020	Medium- term targets
Gross profit margin (%)	40.3	38 - 42	40 - 43
Operating profit margin (%)	7.9	7-10	10 - 15
Increase in operating costs (%)	5.2	6 - 8	5 - 7
Credit sales as a % of total sales	58.1	56 - 60	56 - 60
Satisfactory paid customers (%)	74.2	70 - 72	70 - 72
Debtor costs as a % of debtors at gross carrying value	5.5 (H1/2019 5.5)	13 - 17 (Y/E target)	13 - 16
Gearing (%)	11.9	< 15	< 25

Outlook

- Share repurchase programme to continue
- Trading conditions expected to remain challenging
- Focus on consistent execution of strategy
- Continue to invest in the future by expanding UFO and building the INspire business
- Marketing activity accelerated to drive sales growth, with all group's brands planning to expand participation in Black Friday 2019
- Well prepared for the festive trading period



Questions

