

# LEWIS GROUP LIMITED

## 11<sup>TH</sup> ANNUAL MERRILL LYNCH CONFERENCE

**Lewis**  
Group Ltd

MARCH  
**2010**





## AGENDA

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

# 1. The Investment Case

- **Solid business model established over past 75 years.**
- **Consistent performance.**
- **Historically high operating margin business with low cost structures.**
  - **New format store**
  - **Introduction of furniture into Best Home & Electric**
- **Strongly cash generative.**

# The Investment Case (Cont'd)

- **Dividend per share maintained.**
- **Cash returned to shareholders –Two Thirds of 2004 listing market cap. (66%)**
- **Merchandise management and innovation – a prime focus.**
- **Stock turn – 5.4 times.**



# The Investment Case (Cont'd)

- **Integrated credit and marketing strategies focus on good paying customers**
- **Develop long term customer relationships at store level.**
- **High level of repeat business. (55% of total sales).**
- **Target Market LSM 4-7. A growing market in South Africa.**
- **Centralised credit granting processes.**
- **Sophisticated credit application, behavioural scorecards and affordability models.**



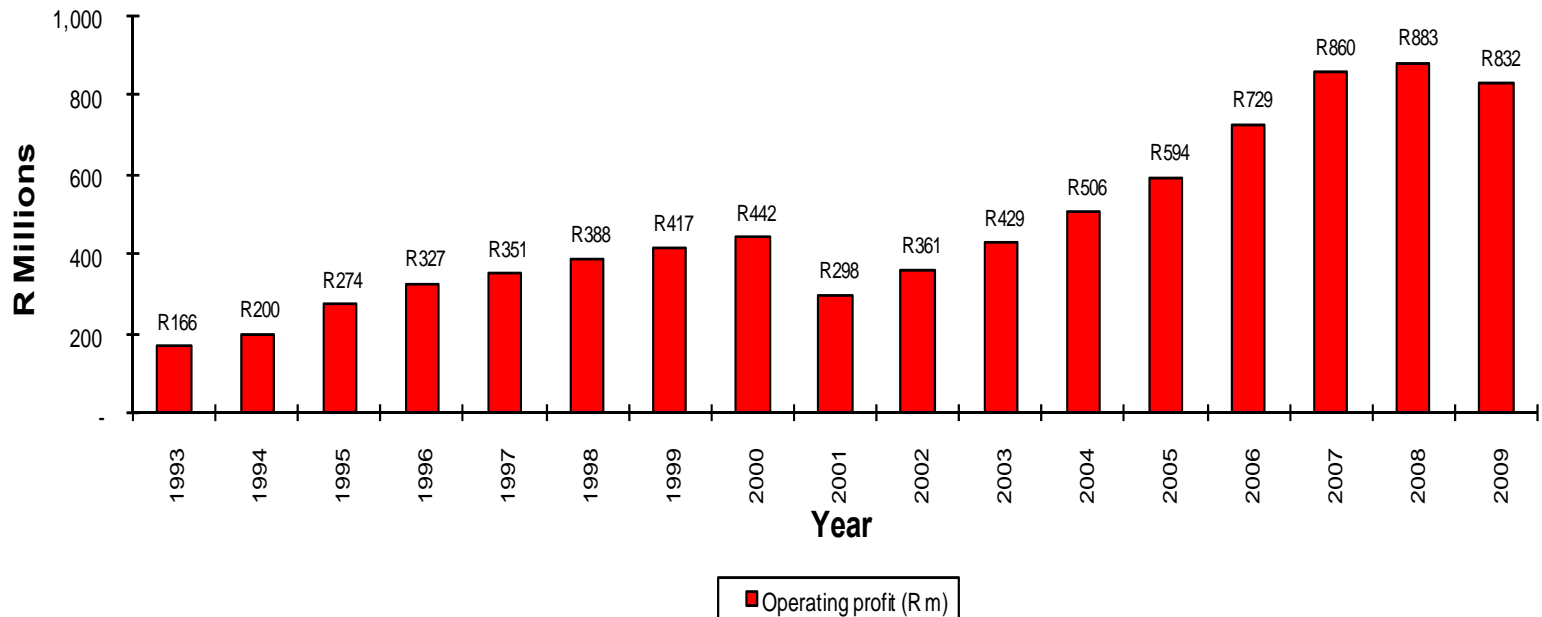
# The Investment Case (Cont'd)

- **Customer debt to income ratio (38%) well below national average (76%).**
- **Proven store based collections process.**
- **Experienced management team.**
  
- **CHALLENGES TO THE INVESTMENT CASE**
- **Extremely challenging past year.**
- **Unemployment and short time worked remains a risk.**



# Operating Profit - History

Over the past 16 years –  
Compound annual growth of 10.6%



Operating margin %	22%	23%	27%	27%	27%	28%	27%	24%	15%	18%	21%	22%	24%	25%	26%	25%	22%
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# Core Strengths

- **Re-serve model** → **± 55% of sales from repeat business**
- **In store promotions** → **Building customer loyalty**
- **Convenience** → **Extensive store network**
- **Selection** → **Merchandise offers to meet local needs**
- **Small store based Warehouses** → **90% of deliveries executed within 24 hours**
- **Immediate Credit decision** → **Centralised credit approval**
- **Store based collections** → **Direct relationship with customer**





# Re-serve Scheme

- Identifies suitability of customer for further credit extension.
- Fully integrated with debtors system and store operations.
- Driven by historic payment behaviour & current indebtedness.
- Customer base is segmented and targeted monthly.
- Targeted direct mailing with promotional offers.
- In-store operations – follow through on promotional offers.

## 2. DEBTOR ANALYSIS

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# Debtors Provisions

- **The Lewis group model is credit based with 69% of sales on credit.**
- **Over 700 000 individual debtors with a debtors book of R3.7 billion.**
- **Debtor provisions well above debtor costs.**
- **Since 2003 debtor provision calculated in terms of International Accounting standard IAS 39.**

## Debtors Provisions (Cont'd)

- **IAS 39 requires receivables to be carried at the net present value of the expected cash flow from the debtor, discounted at the interest rate applicable to the contract.**
- **Provision calculated monthly for each individual customer utilising the payment behaviour (good or bad) of the customer.**

# Debtor Costs

	H1/2010 Rm	H1/2009 Rm						
Total Debtor costs	189	143						
<ul style="list-style-type: none"><li>▪ Bad debts written off</li><li>▪ Provision for doubtful debts</li></ul>	<table border="1"><tr><td>53</td><td>51</td></tr><tr><td>136</td><td>92</td></tr></table>	53	51	136	92	<table border="1"><tr><td>51</td><td>92</td></tr></table>	51	92
53	51							
136	92							
51	92							
Debtor costs as a % of net debtors	5.0%	4.5%						

# Doubtful Debt Provision

	H1/2010	H1/2009
	Rm	Rm
Net Debtors before DD prov.	3 738	3 154
Doubtful debt provision	668	488
Doubtful debt provision %	17.9%	15.5%
Credit application decline rate	27.4%	24.5%

IAS 39 – Net present value of expected cash flow discounted at interest rate applicable to contract

# Debtor Payment Analysis

		NUMBER OF CUSTOMERS			DOUBTFUL DEBT PROVISION		
			H1/2010	H1/2009	H1/2010	H1/2009	MARCH '09
<b>Satisfactory paid</b>	Customers fully up to date including those who have paid 70% or more of amounts due over the contract period	No	491 614	515 471	0%	0%	0%
		%	69.6%	72.5%			
<b>Slow payers</b>	Customers who have paid between 70% and 65% of amounts due over the contract period.	No	57 539	52 899	21%	18%	20%
		%	8.2%	7.4%			
<b>Non performing customers</b>	Customers who have paid between 65% and 55% of amounts due over the contract period.	No	52 949	48 683	41%	42%	42%
		%	7.5%	6.9%			
<b>Non performing customers</b>	Customers who have paid 55% or less of amounts due over the contract period	No	103 795	93 497	89%	85%	88%
		%	14.7%	13.2%			
			<b>705 897</b>	<b>710 550</b>	<b>17.9%</b>	<b>15.5%</b>	<b>15.7%</b>



Doubtful Debt provision allocated on number of customers in the four summary categories



# 3. SUMMARY FINANCIAL RESULTS

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# Overview of Results

R1 946m

21.8%

R424m

290.5c

144c

+ 7.9%

21.8%

+ 4.3%

- 3.9%

Maintained

Revenue

Operating  
Margin

Operating  
Profit

Headline  
Earnings  
per Share

Dividend  
per  
Share

# Income Statement

	H1/2010 Rm	H1/2009 Rm	%
Revenue	1 946	1 803	7.9%
Merchandise sales	951	890	6.8%
Gross profit margin %	33.5%	33.1%	
Operating profit	424	407	4.3%
Operating margin %	21.8%	22.6%	
Attributable earnings	261	270	(3.3%)
EPS (cents)	297	305	(2.6%)
Headline EPS (cents)	291	302	(3.9%)

# Segmental Analysis

<b>H1/2010</b>		<b><u>Group</u></b>	<b><u>Lewis</u></b>	<b><u>Best Home Electric</u></b>	<b><u>Lifestyle Living</u></b>
Revenue (Rm)		1 946	1 644	239	63
Revenue growth (%)		7.9%	7.9%	10.2%	0.8%
Operating profit (Rm)		424	377	46	1
Operating margin	H1:10	21.8%	23.0%	19.3%	1.1%
	H1:09	22.6%	23.9%	20.7%	(3.7%)
Number of stores		539	431	89	19



IFRS8: OPERATING SEGMENTS

Information provided to Chief Operating decision makers

# Business Split

	Retail Rm	Risk Services Rm	Financial Services Rm	Group Rm
<b><u>H1/2010</u></b>				
Revenue	1 083	292	571	1 946
Operating profit	134	76	214	424
Operating margin	H1:10 12.4%	H1:10 26.0%	H1:10 37.5%	H1:10 21.8%
	H1:09 12.1%	H1:09 36.3%	H1:09 36.0%	H1:09 22.6%

- Supplied for continuity purposes only.  
Our business is not managed in accordance with this split.
- Our business model reflects the customer centric nature of operations based on the premise that the selling of furniture and the provision of credit are interdependent.

# Analysis of Costs (Excluding Debtor costs)

	H1/2010 Rm	H1/2009 Rm	Change %
Employment costs	296	270	9.5%
Admin and IT	92	87	6.6%
Marketing	71	67	6.0%
Occupancy costs	78	72	9.0%
Transport/Travel	64	71	(9.6%)
Depreciation	27	28	(4.9%)
Other operating costs	72	63	14.0%
<b>Total</b>	<b>700</b>	<b>658</b>	<b>6.4%</b>
% of revenue	36.0%	36.5%	

# Balance Sheet Overview

	H1/2010 Rm	H1/2009 Rm
Property, plant and equipment	232	207
Investments	803	707
Tax	-	11
Inventory	306	269
Net Debtors after Doubtful Debts	3 147	2 705
Cash	67	99
<b>Total Assets</b>	<b>4 555</b>	<b>3 998</b>
Shareholders' equity and reserves	3 049	2 751
Retirement benefits	55	60
Tax and Deferred Tax	63	7
Creditors	485	415
Interest-bearing borrowings	903	765
	<b>4 555</b>	<b>3 998</b>

# Capital Ratios

	H1/2010	H1/2009
Gearing ratio (%)	27.4%	24.2%
Share repurchases (Rm)	-	51
Interim dividend declared (cents)	144	144
ROE – after tax (%)	17.6%	19.8%
ROCE – after tax (%)	16.4%	17.2%
ROA – before tax (%)	21.0%	22.6%

## 4. OUTLOOK



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# Outlook for 2010/11

## TRADING UPDATE – DECEMBER 2009

	<b>6 months <u>Sept. 2009</u></b>	<b>Quarter ended <u>Dec. 2009</u></b>	<b>9 Months <u>Dec. 2009</u></b>
<b>Revenue increase</b>	<b>7.9%</b>	<b>7.9%</b>	<b>7.9%</b>
<b>Merchandise Sales increase</b>	<b>6.8%</b>	<b>7.3%</b>	<b>7.0%</b>
	<b><u>Sept. 2009</u></b>	<b><u>Dec. 2009</u></b>	<b><u>Dec. 2008</u></b>
<b>Doubtful Debt provision</b>	<b>17.9%</b>	<b>17.4%</b>	<b>15.4%</b>

# Outlook for 2010/11

- **The proven business model - our competitive advantage.**
- **More aggressive store expansion:**
  - **FY2011 : 40 stores**
  - **New Format store**
- **Management of Debtor book remains a top priority**

# Outlook for 2010/11 (Cont'd)

- **Capital management:**
  - **No further buy back planned**
  - **Maintain gearing at current levels**
- **Merchandise innovation – increased furniture sales.**