LEWIS GROUP LIMITED

ANNUAL MERRILL LYNCH CONFERENCE

MARCH 2013

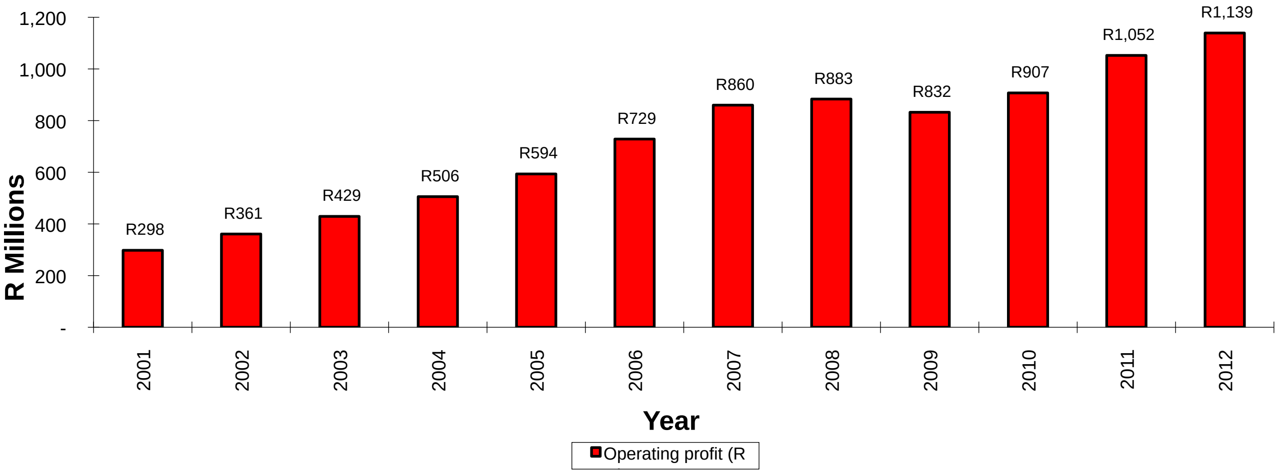
Agenda

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

1. The Investment Case

Operating Profit - History

Solid operating performance over the past 12 years – Compound annual growth of 13%



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

Operating margin %

1. The Investment Case

- Solid business model established over past 75 years.
- Consistent performance.
- Historically high operating margin business with low cost structures.
  - Small format Lewis store
  - Best Home & Electric allied furniture lines

The Investment Case (Cont'd)

- Dividend per share – 54% payout.
- 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.

The Investment Case (Cont'd)

- Develop long term customer relationships at store level.
- 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.

The Investment Case (Cont'd)

- Customer debt to income ratio (49%) well below national average.
- Proven store based collections process.
- Experienced management team.
- CHALLENGE TO THE INVESTMENT CASE

  Unemployment and slow job creation remains a risk.

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

Re-serve Scheme

- Identifies qualifying current customers for further credit extension.
- Fully integrated with debtors system and store operations.
- Driven by historic payment behaviour & total indebtedness.
- Customer base segmented and targeted monthly.
- Promotional offers targeted via direct mailing.
- In-store operations – follow through on promotional offers.

2. Debtor Analysis

Debtors

- The Lewis business model is credit based with 72% - 75% of sales on credit.
- 700 000 individual debtors with a debtors book of R5.3 billion.
- Debtor provisions well above debtor costs.

Debtor Costs

	H1/2013 Rm	H1/2012 Rm
Total Debtor costs	242	247
▪ Bad debts written off	35	49
▪ Impairment provision	207	198
Debtor costs as a % of net debtors	4.6%	5.1%

Debtor Impairment Provision

	H1/2013 Rm	H1/2012 Rm
Net Debtors before provision	5 303	4 835
Impairment provision	1 082	956
Impairment provision %	20.4%	19.8%
Credit application decline rate	36.7%	32.4%

Debtor Payment Analysis

Lewis Group Ltd

Impairment provision allocated on number of customers in the four summary categories.

Debtor's Payment Analysis			NUMBER OF CUSTOMERS		IMPAIRMENT PROVISION %		
			H1/2013	H1/2012	H1/2013	H1/2012	March 2012
Satisfactory paid	Customers fully up to date including those who have paid 70% or more of amounts due over the contract period	No.	479 486	512 825			
		%	**69.7%**	**71.6%**	1%	1%	1%
Slow payers	Customers who have paid between 70% and 65% of amounts due over the contract period	No.	53 059	53 625			
		%	**7.7%**	**7.5%**	25%	28%	26%
Non performing customers	Customers who have paid between 65% and 55% of amounts due over the contract period	No.	48 268	46 847			
		%	**7.0%**	**6.6%**	42%	44%	42%
Non performing customers	Customers who have paid 55% or less of amounts due over the contract period	No.	106 953	102 492			
		%	**15.6%**	**14.3%**	96%	98%	95%
			687 766	**715 789**	20.4%	19.8%	18%

- Average impairment provision on non performing customers 79% (LY: 81%)
- Continue to provide for the insurance charges that may be impacted by the *in duplum* rule.

3. Financial Results

1. Overview of Results

R2 429 m	R438 m	R520 m	419c	212c
+ 6.6%	37.7%	21.4%	+10.6%	+ 23.3%
Revenue	Gross Profit	Operating Profit Margin	Headline Earnings per share	Interim Dividend
LY 2 279 m	LY 420 m	LY 499 m	LY 379c	LY 172c

Income Statement

	H1/2013 Rm	H1/2012 Rm	%
Revenue	2 429	2 279	6.6%
Merchandise Sales	1 161	1 091	6.4%
Gross profit margin %	37.7%	38.5%	
Operating profit (R mil)	520	499	4.4%
Operating margin %	21.4%	21.9%	
Attributable earnings (R mil)	374	337	10.8%
EPS (cents)	421	382	10.4%
Headline EPS (cents)	419	379	10.6%

Segmental Analysis

H1/2013		Group	Lewis	Best	My Home
Revenue (Rm)		2 429	2 038	329	62
Revenue growth (%)		6.6%	6.3%	7.8%	10.5%
Operating profit (Rm)		520	450	66	4
Operating margin	H1:13	21.4%	22.1%	20.0%	6.3%
	H1:12	21.9%	22.7%	20.9%	(2.3%)
Number of stores	H1:13	610	472	125	13

Analysis of Costs

Excluding Debtor Costs

	H1/2013 Rm	H1/2012 Rm	Change %
Employment costs	390	360	8.4%
Admin and IT	105	106	(0.7%)
Marketing	108	98	10.3%
Occupancy costs	112	98	14.7%
Transport/Travel	95	83	13.6%
Depreciation	30	28	9.8%
Other operating costs	103	89	14.6%
Total	943	862	9.4%
% of revenue	38.8%	37.8%	

Balance Sheet Overview

	H1/2013 Rm	H1/2012 Rm
Property, plant and equipment	325	298
Investments	1 498	1 175
Inventory	390	308
Net Debtors	4 357	3 982
Cash	109	111
Total assets	6 679	5 874
Shareholders’ equity and reserves	4 478	3 899
Retirement benefits	66	64
Tax and Deferred Tax	128	112
Creditors	702	646
Interest-bearing borrowings	1 305	1 153
Total equity and liabilities	6 679	5 874

Capital Ratios

	H1/2013	H1/2012
ROE – after tax (%)	17.0%	17.6%
ROCE – after tax (%)	14.6%	14.6%
ROA – before tax (%)	17.8%	18.6%
Interim Dividend declared (cents)	212	172
Gearing ratio (%)	26.7%	26.7%

4. Outlook

Outlook for 2013/14

THIRD QUARTER TRADING UPDATE – DECEMBER 2012

Merchandise Sales	
- 3rd quarter increase	2.7%
- Year to date (9 months)	4.8%
Debtor Costs (cum 9 months to December)	+5.4% (R23m)

Outlook for 2013/14 (Cont’d)

- The proven business model – a competitive advantage
- Management of debtor book – a top priority
- Merchandise – a key focus
- Regulatory environment

Outlook

- **Financial and operating targets**

	2013	Medium-term
Gross Profit margin (%)	36 – 38	36 – 38
Operating costs as a % of revenue	36 – 37	35 – 36
Debtor costs as a % of net debtors	9.5 – 10.5	8
Operating Profit margin (%)	23 – 24	26
Inventory turn (times)	5 – 5.5	5 – 5.5
Gearing (%)	28 – 32	< 35

- **Stores expansion**

  20 – 25 stores next year

5. Questions