Lewis Group Ltd

FINAL AUDITED RESULTS

FOR THE YEAR ENDED 31 MARCH 2013

REVENUE UP	GROSS PROFIT MARGIN	DEBTOR COSTS UP	OPERATING PROFIT MARGIN	HEADLINE EARNINGS PER SHARE UP	TOTAL DIVIDEND UP
6.8%	38.3%	3.3%	24.0%	13.6%	16.3%

Overview

Lewis Group posted a resilient performance in challenging retail trading conditions over the past year. The group has benefited from its decentralised collection model which resulted in a marginal increase in debtor costs.

Tight control of operating expenses and debtor costs, together with increasing credit sales, lifted the group's operating profit margin by 50 basis points to 24.0%. This contributed to an increase of 13.6% in headline earnings per share.

We are pleased to report that the company once again covered the impact of the dividend withholding tax of 15% on behalf of its shareholders. A final dividend of 302 cents per share has been declared, bringing the total dividend for the period to 514 cents, an increase of 16.3% over the previous year.

The group has delivered on its targets by achieving or exceeding the financial and operating goals set for the year.

	Target	Achieved
Gross profit margin (%)	36 – 38	38.3
Operating costs as a % of revenue	36 – 37	36.2
Debtor costs as a % of net debtors	9.5 – 10.5	9.4
Operating profit margin (%)	23 – 24	24.0
Inventory turn (times)	5 – 5.5	5.0
Gearing ratio (%)	28 – 32	29.9

Trading and financial performance

Merchandise sales increased by 4.4% to R2.5 billion, reflecting the current tight consumer economy and the impact of widespread labour instability during the year. Sales of the higher margin furniture and appliance category increased by 4% with sales of electronic goods growing at 6.6%. Furniture sales account for 54.3% (2012: 54%) of total merchandise sales.

Credit sales increased from 71.4% to 75.3% of total sales with the continued focus on attracting credit customers through exclusive merchandise offerings and targeted customer promotions. Credit sales have shown an increasing trend in recent years, growing from 68.5% in 2010. The group will continue to benefit from the resultant annuity income into the future.

Revenue in Lewis, which comprises 83% of group revenue, increased by 5.8%. Best Home and Electric grew revenue by 12.8% and My Home by 9.9%. The growth in insurance income, finance charges and ancillary services is attributable to the higher level of credit sales and the increasing proportion of longer term (36 month) accounts in the debtor base.

The gross profit margin at 38.3% benefited from the established import programme and the strategy of sourcing innovative and exclusive merchandise locally and internationally.

Tight cost disciplines contained the growth in operating costs, excluding debtor costs, to 7.3%. Expenses include the expansion of the store base, the refurbishment of 111 stores, higher insurance claims and increased investment in staff training to improve productivity. Transport costs were well contained following the introduction of a transport management system. Savings were also made in the area of IT and communication costs.

Operating profit increased by 9.5% to R1.2 billion resulting in the operating profit margin improving from 23.5% in 2012 to 24.0% in 2013. Headline earnings increased by 14% to R890 million, with headline earnings per share growing 13.6% to 1 003 cents (2012: 883 cents).

Inventory levels were well managed, with the inventory turn at 5.0 times for the period.

Net borrowings increased by R450 million to fund primarily the growth in the debtors' book. The gearing ratio of 29.9% (2012: 23.3%) at year-end is well within management's target range of 28% - 32%.

Debtor management

In a challenging collection environment the growth in debtor costs was contained to 3.3%. Debtor costs as a percentage of net debtors improved from 10.8% in 2012 to 9.4% in 2013, exceeding the target of 9.5% to 10.5%.

Satisfactory paid customers represent 69.4% of total debtors for 2013. This is in line with the 69.7% reported at the half year but below the 2012 figure of 72.1%. This decline can be largely attributed to customers being impacted by the widespread labour unrest experienced during the year.

The group remains adequately provided with a 17.4% impairment provision (2012: 18%). This marginal reduction is largely as a result of the write-off of fully provided for debt mediation accounts for the first time this year.

The growth in the debtors' book is due mainly to the higher level of credit sales and the increase in the average term of new credit contracts from 28 months to 33 months.

Store expansion

During the past year 12 Lewis and 11 Best Home and Electric outlets were opened, bringing the store base to 619 at year-end. All the new Lewis outlets are the smaller format stores with lower cost structures and higher sales densities. The group also took the opportunity to relocate to smaller premises and reduce space in large stores when leases came up for renewal.

Regulatory environment

A task team comprising of the National Credit Regulator, the Financial Services Board and the National Treasury has been established to investigate the credit insurance industry. Lewis supports engagement with the regulators to bring about a speedy resolution to the current uncertainty in the market.

Prospects

The disposable income of our target market remains under pressure and consumer confidence is falling. In this challenging trading environment, management will continue to focus on sourcing exclusive value-for-money merchandise and supporting this merchandise offer with strong marketing activity to attract credit customers. Containing expense growth and debtor costs will remain a top priority.

The group remains confident in its business model and will continue to invest for future growth by expanding the retail footprint by 20 to 25 new stores in the year ahead.

Dividend declaration

Notice is hereby given that a final gross cash dividend of 302 cents per share in respect of the year ended 31 March 2013 has been declared payable to holders of ordinary shares.

The number of shares in issue as of the date of declaration is 98 057 959.

The dividend has been declared out of income reserves and is subject to a dividend tax of 15%. The dividend for determining the dividend tax is 302 cents and the dividend tax payable is 45.3 cents for shareholders who are not exempt. No STC credits have been utilised. The net dividend for shareholders who are not exempt will therefore be 256.7 cents. The dividend tax rate may be reduced where the shareholder is tax resident in a foreign jurisdiction which has a Double Tax Convention with South Africa and meets the requirements for a reduced rate.

The company's tax reference number is 9551/419/15/4.

The following dates are applicable to this declaration:

Last date to trade "cum" dividend	Friday 12 July 2013
Date trading commences "ex" dividend	Monday 15 July 2013
Record date	Friday 19 July 2013
Date of payment	Monday 22 July 2013

Share certificates may not be dematerialised or rematerialised between Monday 15 July 2013 and Friday 19 July 2013, both days inclusive.

External auditor's opinion

The external auditors, PricewaterhouseCoopers Inc., have audited the group's annual financial statements and the abridged financial statements contained herein for the 12 months ended 31 March 2013. A copy of their unqualified reports are available on request at the company's registered office.

Executive directors: J Enslin (Chief Executive Officer), LA Davies (Chief Financial Officer). Non-executive directors: DM Nurek (Chairman) (Ind.), H Saven (Ind.), BJ van der Ross (Ind.), Professor F Abrahams (Ind.), ZBM Bassa (Ind.), MSP Marutlulle (Ind.), AJ Smart (Ind.). The Company secretary: MG 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

FINAL AUDITED RESULTS FOR THE YEAR ENDED 31 MARCH 2013

INCOME STATEMENT

	Notes	For the year ended 31 March 2013 Rm Audited	% Change	For the year ended 31 March 2012 Rm Audited
Revenue		5 187.6	6.8%	4 857.3
Merchandise sales		2 470.3		2 365.4
Finance charges and initiation fees earned		1 082.6		1 055.4
Insurance revenue		994.7		868.5
Ancillary services		640.0		568.0
Cost of merchandise sales		(1 523.1)		(1 446.3)
Operating Costs		(2 416.9)		(2 271.9)
Employment costs		(792.0)		(732.9)
Administration and IT		(202.8)		(220.7)
Debtor costs	2	(539.6)		(522.3)
Marketing		(191.2)		(184.5)
Occupancy costs		(232.7)		(207.3)
Transport and travel		(185.2)		(177.9)
Depreciation		(55.1)		(48.5)
Other operating costs		(218.3)		(177.8)
Operating profit		1 247.6	9.5%	1 139.1
Investment income		111.8		91.9
Profit before finance costs		1 359.4		1 231.0
Net finance costs		(96.3)		(63.2)
Interest paid		(105.2)		(82.2)
Interest received		6.9		3.8
Forward Exchange Contracts		2.0		15.2
Profit before taxation		1 263.1		1 167.8
Taxation		(355.7)		(367.2)
Net profit attributable to ordinary shareholders		907.4	13.3%	800.6

STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 31 March 2013 Rm Audited	For the year ended 31 March 2012 Rm Audited
Net profit for the year	907.4	800.6
Fair value adjustment to available-for-sale investments	103.7	72.9
Disposal of available-for-sale investments	(15.3)	(17.2)
Foreign currency translation reserve	6.6	1.5
Other comprehensive income	95.0	57.2
Total comprehensive income for the year attributable to ordinary shareholders	1 002.4	857.8

EARNINGS AND DIVIDENDS PER SHARE

	For the year ended 31 March 2013	% Change	For the year ended 31 March 2012
1. **Weighted average no. of shares**			
Weighted average	88 749		88 463
Diluted weighted average	89 612		89 446
2. **Headline earnings (Rm)**			
Attributable earnings	907.4		800.6
Profit on disposal of assets and investments	(17.3)		(19.9)
Headline earnings	890.1		780.7
3. **Earnings per share (cents)**			
Earnings per share	1 022.4	13.0%	905.0
Diluted earnings per share	1 012.6		895.1
4. **Headline earnings per share (cents)**			
Headline earnings per share	1 002.9	13.6%	882.5
Diluted headline earnings per share	993.3		872.8
5. **Dividends per share (cents)**			
Dividends paid per share			
Final dividend 2012 (2011)	270.0		207.0
Interim dividend 2013 (2012)	212.0		172.0
	482.0		379.0
Dividends declared per share			
Interim dividend 2013 (2012)	212.0		172.0
Final dividend 2013 (2012)	302.0	11.9%	270.0
	514.0	16.3%	442.0

KEY RATIOS

	For the year ended 31 March 2013	For the year ended 31 March 2012
Operating efficiency ratios		
Gross profit margin %	38.3%	38.9%
Operating profit margin %	24.0%	23.5%
Number of stores	619	602
Number of permanent employees (average)	7 398	7 062
Trading space (sqm)	226 866	229 542
Inventory turn	5.0	5.1
Current ratios	6.0	4.7
Credit ratios		
Credit sales %	75.3%	71.4%
Bad debts as a % of net debtors	7.3%	8.3%
Debtor costs as a % of the net debtors	9.4%	10.8%
Debtors' impairment provision as a % of net debtors	17.4%	18.0%
Arrear instalments on satisfactory accounts as a percentage of net debtors	8.6%	10.3%
Arrear instalments on slow-paying and non-performing accounts as a percentage of net debtors	21.1%	21.9%
Credit applications decline rate	36.5%	33.0%
Shareholder ratios		
Net asset value per share (cents)	5 467	4 828
Gearing ratio	29.9%	23.3%
Dividend payout ratio	55.5%	54.1%
Return on average equity (after-tax)	19.9%	20.0%
Return on average capital employed (after-tax)	16.7%	16.7%
Return on average assets managed (pre-tax)	20.3%	21.1%

Notes:
1. All ratios are based on figures at the end of the year unless otherwise disclosed
2. The net asset value has been calculated using 88 435 000 shares in issue (2012: 88 536 000).
3. Total assets exclude the deferred tax asset.

BALANCE SHEET

	Notes	31 March 2013 Rm Audited	31 March 2012 Rm Audited
Assets			
Non-current assets			
Property, plant and equipment		332.6	311.9
Deferred taxation		0.6	16.1
Retirement benefit asset		6.0	–
Insurance investments	3	1 238.3	1 005.3
		1 577.5	1 333.3
Current assets			
Inventories		305.8	281.4
Trade and other receivables	4	4 840.9	4 064.5
Insurance investments	3	465.9	373.3
Cash on hand and deposits		59.5	77.9
		5 672.1	4 797.1
Total assets		7 249.6	6 130.4
Equity and liabilities			
Capital and reserves			
Share capital and premium		88.4	95.4
Other reserves		397.8	277.9
Retained earnings		4 348.4	3 901.3
		4 834.6	4 274.6
Non-current liabilities			
Long-term interest-bearing borrowings		1 250.0	650.0
Deferred taxation		149.4	111.4
Retirement benefit liability		76.3	63.6
		1 475.7	825.0
Current liabilities			
Trade and other payables		211.7	237.1
Reinsurance and insurance liabilities		472.1	348.7
Taxation		–	21.0
Short-term interest-bearing borrowings		255.5	424.0
		939.3	1 030.8
Total equity and liabilities		7 249.6	6 130.4

CASH FLOW STATEMENT

	For the year ended 31 March 2013 Rm Audited	For the year ended 31 March 2012 Rm Audited
Cash flow from operating activities		
Cash flow from trading	1 526.6	1 358.3
Change in working capital	(893.8)	(385.9)
Cash generated from operations	632.8	972.4
Interest and dividends received	100.5	76.6
Interest paid	(103.2)	(67.0)
Taxation paid	(358.4)	(377.4)
	271.7	604.6
Cash utilised in investing activities		
Net additions to insurance investments	(183.8)	(194.1)
Acquisition of property, plant and equipment	(85.7)	(87.8)
Proceeds on disposal of property, plant and equipment	12.4	10.2
	(257.1)	(271.7)
Cash flow from financing activities		
Dividends paid	(428.1)	(335.5)
Increase in long-term borrowings	600.0	250.0
(Decrease) / increase in short-term borrowings	(200.0)	50.0
Purchase of own shares	(40.1)	–
Proceeds on sale of own shares	3.7	5.2
	(64.5)	(30.3)
Net (decrease) / increase in cash and cash equivalents	(49.9)	302.6
Cash and cash equivalents at the beginning of the year	(46.1)	(348.7)
Cash and cash equivalents at the end of the year	(96.0)	(46.1)

Analysis of borrowings and banking facilities		
Borrowings		
Long-term	1 250.0	650.0
Short-term	100.0	300.0
	1 350.0	950.0
Cash and cash equivalents		
Short-term facilities utilised	155.5	124.0
Cash on hand	(59.5)	(77.9)
	96.0	46.1
Net borrowings	1 446.0	996.1
Unutilised facilities	704.0	753.9
Total banking facilities	2 150.0	1 750.0

SEGMENTAL REPORT

Reportable Segment	Lewis Rm	Best Home and Electric Rm	My Home Rm	Group Rm
2013				
Revenue	4 318.8	736.9	131.9	5 187.6
Operating profit	1 047.7	185.3	14.6	1 247.6
Operating margin	24.3%	25.1%	11.1%	24.0%
Segment assets	4 230.9	675.9	120.3	5 027.1
2012				
Revenue	4 083.8	653.5	120.0	4 857.3
Operating profit	985.1	145.6	8.4	1 139.1
Operating margin	24.1%	22.3%	7.0%	23.5%
Segment assets	3 624.5	535.3	104.6	4 264.4

STATEMENT OF CHANGES IN EQUITY

	Notes	For the year ended 31 March 2013 Rm Audited	For the year ended 31 March 2012 Rm Audited
Share capital and premium			
Opening balance		95.4	93.5
Cost of own shares acquired (treasury shares)		(40.1)	–
Share awards to employees		33.1	1.9
		88.4	95.4
Other reserves			
Opening balance		277.9	207.1
Other comprehensive income for the year		95.0	57.2
Share-based payment		22.1	19.0
Other movements		2.8	(5.4)
		397.8	277.9
Retained earnings			
Opening balance		3 901.3	3 427.5
Net profit attributable to ordinary shareholders		907.4	800.6
Distribution to shareholders		(428.1)	(335.5)
Share awards to employees		(30.4)	(1.9)
Other movements		(1.8)	10.6
		4 348.4	3 901.3
Balance as 31 March 2013		4 834.6	4 274.6

DEBTORS' ANALYSIS

The company assesses each customer individually on a monthly basis and categorises customers into 13 payment categories. This assessment is integral to the calculation of the debtors' impairment provision and incorporates both payment behaviour and the age of the account. 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.

		No. of Customers 2013	No. of Customers 2012		Distribution of Impairment Provision 2013	Distribution of Impairment Provision 2012
Satisfactory paid: Customers fully up to date including those who have paid 70% or more of the amounts due over the contract period. The provision in this category results from an *in duplum* provision	No. %	478 093 69.4%	491 478 72.1%	Rm %	27.5 2.8%	35.1 4.0%
Slow payers: Customers fully up to date including those who have paid 65% to 70% of amounts due over the contract period. The provision in this category ranges from 12% to 79% of amounts due and includes an *in duplum* provision (2012: 7% to 72%)	No. %	58 155 8.5%	55 791 8.2%	Rm %	111.4 11.2%	104.1 11.9%
Non-performing customers Customers who have paid 55% to 65% of amounts due over the period of the contract. The provision in this category ranges from 23% to 90% of the amounts due (2012: 19% to 86%)	No %	55 202 8.0%	45 978 6.7%	Rm %	177.9 17.8%	137.2 15.7%
Non-performing customers Customers who have paid 55% or less of amounts due over the period of the contract. The provision in this category ranges from 33% to 100% of the amounts due (2012: 28% to 100%)	No. %	97 093 14.1%	88 265 13.0%	Rm %	680.4 68.2%	598.8 68.4%
Total	No.	688 543	681 512	Rm	997.2	875.2
Debtors impairment provision as a % of net debtors					17.4%	18.0%

NOTES TO THE FINANCIAL STATEMENTS

1. **Basis of reporting**
The information contained in these abridged financial statements has been extracted from the group's 2013 audited annual financial statements which has been prepared in accordance with the recognition and measurement principles of International Financial Accounting Standards (IFRS) including IAS34 (Interim Financial Reporting), and in compliance with the Listing Requirements of the JSE. The accounting policies applied are consistent with those applied in the annual financial statements for the year ended 31 March 2012 except for the following reclassifications made:
- initiation fee income has been reclassified from ancillary services to finance charges earned. This reclassification has no impact on total revenue for both the current and comparative period.
- insurance provisions and amounts due to reinsurers have been reclassified from trade and other payables to reinsurance and insurance liabilities on the face of the balance sheet.

In terms of IAS 8 (Accounting policies), the comparative information has been restated.

	31 March 2013 Rm Audited	31 March 2012 Rm Audited
2. **Debtor costs**		
Bad debts repossession losses and bad debt recoveries	417.6	405.4
Movement in impairment provision	122.0	116.9
	539.6	522.3
3. **Insurance investments - available for sale**		
Listed		
Listed shares	583.3	442.9
Fixed income securities	655.0	562.4
Unlisted		
Money market	465.9	373.3
	1 704.2	1 378.6

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.

4. **Trade and other receivables**		
Instalment sale and loan receivables	6 958.3	5 871.1
Provision for unearned finance charges and unearned maintenance income	(280.8)	(280.9)
Provision for unearned initiation fees	(129.8)	(109.8)
Provision for unearned insurance premiums	(829.2)	(622.2)
Net instalment sale and loan receivables	5 718.5	4 858.2
Provision for impairment	(997.2)	(875.2)
	4 721.3	3 983.0
Other receivables	119.6	81.5
	4 840.9	4 064.5

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 credit terms of instalment sale and loan receivables range from 6 to 36 months. The average effective interest rate on instalment sale and loan receivables is 21.5% (2012: 22.3%) and the average term of the sale is 32.7 months (2012: 28.3 months).

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

ince