Lewis Group Ltd

Final audited results

for the year ended 31 March 2015

REVENUE UP	GROSS PROFIT MARGIN	OPERATING PROFIT MARGIN	HEADLINE EARNINGS PER SHARE	NET ASSET VALUE PER SHARE UP	TOTAL DIVIDEND MAINTAINED AT
8% TO R5.7 BILLION	36.6%	20%	883 CENTS	8.9%	517 CENTS

Overview

The group posted a strong second half performance and gained market share in the changing competitive environment. Merchandise sales for the second half increased by 18%, compared to a decline of 3.5% for the first six months, driven mainly by the exclusive merchandise offering which was supported by higher levels of promotional activity.

The acquisition of the Beares brand together with 61 stores was completed in late November 2014. These stores were integrated into the group's operations from the second week in December. Beares offers exciting growth potential and will enable the group to attract new customers in higher LSM markets. The 12 My Home stores have been incorporated into the Beares business.

While the group has reported an improving performance, trading conditions have remained particularly tough, with consumers in the group's lower to middle income target market under continued financial pressure.

Trading and financial performance

Revenue for the 12 months increased by 8.0% to R5.7 billion, with merchandise sales growth of 7.6% (2014: decrease of 2.5%). Excluding Beares, merchandise sales increased by 4.4%.

Following the acquisition of the Beares stores, and the opening of a net 19 new stores across the three brands, the store base reached 716 at year-end. A total of 75 Lewis and Best Home and Electric stores were refurbished during the period.

The gross profit margin was maintained at 36.6% despite the aggressive discounting by competitors ahead of stores closures in the last quarter of the 2014 calendar year.

Expenses continued to be tightly managed and operating costs, excluding debtor costs, expressed as a percentage of turnover were in line with last year at 36.1%. Despite the additional costs relating to the acquisition and integration of the Beares chain, expenses only increased by 8.4%.

The group's operating margin at 20.0% (2014: 21.8%) was impacted by higher debtor costs and costs relating to the acquisition of Beares. Operating profit was 1.2% lower at R1 140 million. Headline earnings at R784 million was 4.2% lower than the previous year, with headline earnings per share of 883 cents (2014: 921 cents).

The board has maintained the total dividend at 517 cents per share, confirming its confidence in the group's business model.

Inventory levels at period-end were higher due mainly to the take-on of the Beares chain.

The gearing ratio reduced to 23.2% (2014: 23.9%) as the longer-term credit contracts fully settled in the base.

Debtor management

Improving collection rates in the second half of the year contributed to a further slowing of debtor cost growth to 22% from 27% at September 2014 and 30% in July 2014.

The level of satisfactory paid customers improved to 68.7% (2014: 68.3%) and non-performing customers reduced to 15.5% (2014: 15.7%). The group's credit customer base increased by 11 000 customers to 690 000 at year-end.

Debtor costs as a percentage of net debtors moved from 11.6% to 13.0% in line with management's expectations. The impairment provision increased from 18.6% to 19.7%, evidencing the prevailing challenging credit environment.

The high level of consumer indebtedness in the group's target market is reflected in the increase in the credit application decline rate from 38.4% in 2014 to 40.2% in 2015.

Credit sales as a percentage of total sales declined from 72% in 2014 to 69% in 2015 due mainly to the incorporation of the Beares chain which has a higher cash sales component.

Prospects

The retail trading and credit environment is unlikely to show any marked improvement in the short to medium term as the consumer economy remains weak and unemployment remains high.

In this environment the group will focus on driving quality credit sales, containing costs and further improving collection rates.

The group continues to invest for future growth and plans to open 30 stores in the year ahead, with 20 across the Lewis brand and 10 new outlets for Beares. Capital expenditure of R100 million has been budgeted for 2016.

Beares is a scalable brand which offers sustained organic growth prospects. Management will continue to refine the merchandise offering for the higher targeted LSM market to maximise the potential growth of the brand.

Through its decentralised customer focused business model the group is well positioned for further market share gains within the shifting competitive landscape.

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 2015 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. 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 10 July 2015
Date trading commences "ex" dividend	Monday 13 July 2015
Record date	Friday 17 July 2015
Date of payment	Monday 20 July 2015

Share certificates may not be dematerialised or rematerialised between Monday 13 July 2015 and Friday 17 July 2015, both days inclusive.

For and on behalf of the Board

David Nurek
Independent
Non-executive chairman

Johan Enslin
Chief executive officer

Les Davies
Chief financial officer

Cape Town

27 May 2015

External auditor's opinion

These summary consolidated financial statements for the year ended 31 March 2015 have been audited by PricewaterhouseCoopers Inc., who expressed an unmodified opinion thereon. The auditor also expressed an unmodified opinion on the annual financial statements from which these summary consolidated financial statements were derived.

A copy of the auditor's report on the summary consolidated financial statements and of the auditor's report on the annual consolidated financial statements are available for inspection at the company's registered office, together with the financial statements identified in the respective auditor's reports.

welcome home

Really Cares about You!

Executive directors: J Enslin (Chief executive officer), LA Davies (Chief financial officer). **Independent non-executive directors:** DM Nurek (Chairman), H Saven, BJ van der Ross, Professor F Abrahams, AJ Smart. **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 **Bond code:** LEW01 **Bond ISIN:** ZAG000110222

Final audited results
for the year ended 31 March 2015

Income statement

	Notes	For the year ended 31 March 2015 Rm	% Change	For the year ended 31 March 2014 Rm
Revenue		5 703.3	8.0%	5 281.7
Merchandise sales		2 591.5		2 409.1
Finance charges and initiation fees earned		1 326.4		1 208.9
Insurance revenue		981.4		975.5
Ancillary services		804.0		688.2
Cost of merchandise sales		(1 644.3)		(1 524.4)
Operating costs		(2 918.8)		(2 603.3)
Employment costs		(880.8)		(818.9)
Administration and IT		(241.1)		(217.1)
Debtor costs	2	(858.1)		(702.4)
Marketing		(177.0)		(173.1)
Occupancy costs		(273.6)		(245.2)
Transport and travel		(215.8)		(192.6)
Depreciation and amortisation		(63.8)		(58.5)
Other operating costs		(208.6)		(195.5)
Operating profit		1 140.2	(1.2%)	1 154.0
Investment income		148.0		125.8
Profit before finance costs		1 288.2		1 279.8
Net finance costs		(119.7)		(102.7)
Interest paid		(135.1)		(116.8)
Interest received		12.2		6.5
Forward exchange contracts		3.2		7.6
Profit before taxation		1 168.5		1 177.1
Taxation		(329.1)		(334.9)
Net profit attributable to ordinary shareholders		839.4	(0.3%)	842.2

Statement of comprehensive income

	For the year ended 31 March 2015 Rm	For the year ended 31 March 2014 Rm
Net profit for the year	839.4	842.2
Movement in other reserves (recycled to income statement on disposal)	119.3	60.9
Fair value adjustment to available-for-sale investments	156.8	71.5
Disposal of available-for-sale investments	(40.6)	(23.9)
Foreign currency translation reserve	3.1	13.3
Retirement benefit remeasurements	(10.4)	30.5
Other comprehensive income	108.9	91.4
Total comprehensive income for the year attributable to equity shareholders	948.3	933.6

Earnings and dividends per share

	For the year ended 31 March 2015	% Change	For the year ended 31 March 2014
1. Weighted average no. of shares			
Weighted average	88 840		88 762
Diluted weighted average	89 585		89 614
2. Headline earnings (Rm)			
Attributable earnings	839.4		842.2
Profit on disposal of assets and investments	(43.2)		(24.6)
Gain on acquisition of Beares	(12.0)		–
Headline earnings	784.2		817.6
3. Earnings per share (cents)			
Earnings per share	944.8	(0.4%)	948.8
Diluted earnings per share	937.0		939.8
4. Headline earnings per share (cents)			
Headline earnings per share	882.7	(4.2%)	921.1
Diluted headline earnings per share	875.4		912.4
5. Dividends per share (cents)			
Dividends paid per share			
Final dividend 2014 (2013)	302.0		302.0
Interim dividend 2015 (2014)	215.0		215.0
	517.0		517.0
Dividends declared per share			
Interim dividend 2015 (2014)	215.0		215.0
Final dividend 2015 (2014)	302.0		302.0
	517.0		517.0

Statement of changes in equity

	For the year ended 31 March 2015 Rm	For the year ended 31 March 2014 Rm
Share capital and premium		
Opening balance	109.2	88.4
Cost of own shares acquired (treasury shares)	(26.5)	(10.7)
Share awards to employees	28.1	31.5
	110.8	109.2
Other reserves		
Opening balance	436.1	397.8
Other comprehensive income for the year	119.3	60.9
Share-based payment	19.7	27.0
Transfer to retained earnings	(26.9)	(49.6)
	548.2	436.1
Retained earnings		
Opening balance	4 796.5	4 361.1
Net profit attributable to ordinary shareholders	839.4	842.2
Distribution to shareholders	(459.3)	(459.3)
Share awards to employees	(28.1)	(28.1)
Transfer from other reserves	26.9	49.6
Profit on sale of own shares	–	0.5
Retirement benefit remeasurements	(10.4)	30.5
	5 165.0	4 796.5
Balance as at 31 March 2015	5 824.0	5 341.8

Balance sheet

	Notes	31 March 2015 Rm	31 March 2014 Rm
Assets			
Non-current assets			
Property, plant and equipment		352.9	327.3
Trademark		60.1	–
Deferred taxation		0.5	0.6
Retirement benefit asset		77.4	79.7
Insurance investments	3	1 715.6	1 415.0
		2 206.5	1 822.6
Current assets			
Inventories		420.3	324.6
Trade and other receivables	4	5 395.9	5 078.9
Insurance investments	3	127.0	283.7
Taxation		34.8	–
Cash on hand and deposits		222.3	480.1
		6 200.3	6 167.3
Total assets		8 406.8	7 989.9
Equity and liabilities			
Capital and reserves			
Share capital and premium		110.8	109.2
Other reserves		548.2	436.1
Retained earnings		5 165.0	4 796.5
		5 824.0	5 341.8
Non-current liabilities			
Long-term interest-bearing borrowings		825.0	1 000.0
Deferred taxation		248.3	173.5
Retirement benefit liability		106.7	92.9
		1 180.0	1 266.4
Current liabilities			
Trade and other payables		283.8	227.9
Reinsurance and insurance liabilities		370.0	388.7
Taxation		–	7.1
Short-term interest-bearing borrowings		749.0	758.0
		1 402.8	1 381.7
Total equity and liabilities		8 406.8	7 989.9

Cash flow statement

	Notes	For the year ended 31 March 2015 Rm	For the year ended 31 March 2014 Rm
Cash flow from operating activities			
Cash flow from trading		1 376.1	1 360.2
Change in working capital		(514.0)	(429.3)
Cash generated from operations		862.1	930.9
Interest and dividends received		113.1	104.1
Interest paid		(131.9)	(109.2)
Taxation paid		(337.9)	(326.9)
		505.4	598.9
Cash flow from investing activities			
Net disposals of insurance investments		48.2	87.6
Acquisition of property, plant and equipment		(86.7)	(59.1)
Purchase of Beares business	5	(66.6)	–
Proceeds on disposal of property, plant and equipment		11.7	6.8
		(93.4)	35.3
Cash flow from financing activities			
Dividends paid		(459.3)	(459.3)
Decrease in long-term borrowings		(175.0)	(250.0)
(Decrease)/increase in short-term borrowings		(50.0)	650.0
Purchase of own shares		(26.5)	(10.7)
Proceeds on sale of own shares		–	3.9
		(710.8)	(66.1)
Net (decrease)/increase in cash and cash equivalents		(298.8)	568.1
Cash and cash equivalents at the beginning of the year		472.1	(96.0)
Cash and cash equivalents at the end of the year		173.3	472.1
Analysis of borrowings and facilities			
Borrowings			
Long-term		825.0	1 000.0
Short-term		700.0	750.0
		1 525.0	1 750.0
Cash and cash equivalents			
Short-term facilities utilised		49.0	8.0
Cash on hand		(222.3)	(480.1)
		(173.3)	(472.1)
Net borrowings		1 351.7	1 277.9
Unutilised facilities:			
Banking facilities		973.3	1 272.1
Domestic Medium-Term Note Programme		1 700.0	1 500.0
Banking facilities and Domestic Medium-Term Note Programme		4 025.0	4 050.0

Key ratios

	For the year ended 31 Mar 2015	For the year ended 31 Mar 2014
Operating efficiency ratios		
Gross profit margin (%)	36.6%	36.7%
Operating profit margin (%)	20.0%	21.8%
Number of stores	716	636
Number of permanent employees (average)	7 835	7 590
Trading space (sqm)	248 137	221 336
Inventory turn	3.9	4.7
Current ratios	4.4	4.5
Credit ratios		
Credit sales (%)	69.1%	72.3%
Bad debts as a % of net debtors	10.5%	9.4%
Debtor costs as a % of the net debtors	13.0%	11.6%
Debtors' impairment provision as a % of net debtors	19.7%	18.6%
Arrear instalments on satisfactory accounts as a % of net debtors	8.7%	8.6%
Arrear instalments on slow-paying and non-performing accounts as a % of net debtors	22.9%	22.6%
Credit applications decline rate	40.2%	38.4%
Shareholder ratios		
Net asset value per share (cents)	6 551	6 012
Gearing ratio	23.2%	23.9%
Dividend payout ratio	60.4%	60.2%
Return on average equity (after-tax)	15.0%	16.5%
Return on average capital employed (after-tax)	12.8%	13.6%
Return on average assets managed (pre-tax)	15.7%	16.8%

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 88 908 000 shares in issue (2014: 88 851 000).*
3. *Total assets exclude the deferred tax asset.*

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 2015	No. of customers 2014		Distribution of impairment provision 2015	Distribution of impairment provision 2014
Satisfactory paid Customers fully up to date including those who have paid 70% or more of amounts due over the contract period. The provision in this category results from the *in duplum* provision.	No. %	473 901 68.7%	463 048 68.3%	Rm %	21.1 1.6%	22.9 2.0%
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 74% of amounts due and includes an *in duplum* provision (2014: 12% to 79%)	No. %	56 347 8.2%	56 876 8.4%	Rm %	140.4 10.9%	121.3 10.8%
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 87% of the amounts due (2014: 23% to 90%)	No. %	52 433 7.6%	51 640 7.6%	Rm %	199.6 15.4%	180.0 15.9%
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 32% to 100% of the amounts due (2014: 33% to 100%)	No. %	107 167 15.5%	106 545 15.7%	Rm %	933.2 72.1%	805.3 71.3%
Total	No.	689 848	678 109	Rm	1 294.3	1 129.5
Debtors impairment as a % of net debtors					19.7%	18.6%

Segmental report

Reportable segment	Lewis Rm	Best Home and Electric Rm	Beares/ My Home Rm	Group Rm
2015				
Revenue	4 688.5	801.6	213.2	5 703.3
Operating profit	965.4	169.1	5.7	1 140.2
Operating margin	20.6%	21.1%	2.7%	20.0%
Segment assets	4 719.5	760.3	225.3	5 705.1
2014				
Revenue	4 400.0	755.6	126.1	5 281.7
Operating profit	962.8	175.9	15.3	1 154.0
Operating margin	21.9%	23.3%	12.1%	21.8%
Segment assets	4 421.1	715.3	128.8	5 265.2

Notes to the financial statements

1. Basis of reporting

The information contained in these financial statements has been extracted from the Group's 2015 audited annual financial statements and which has been prepared in accordance with the framework concepts and the measurement and recognition principles of International Financial Reporting Standards (IFRS), IAS34 (Interim Financial Reporting), SAICA Financial Reporting Guides and Circulars issued by the Accounting Practices Committee, Financial Pronouncements issued by the Financial Reporting Standards Council and in compliance with the Listing Requirements of the JSE Limited.

The accounting policies applied are consistent with those applied in the annual financial statements for the year ended 31 March 2014 except for the following additional policy included as a result of the purchase of the Beares business:

1.1 Trademarks:

Trademarks acquired in a business acquisition are recognised at fair value at the acquisition date. Trademarks are amortised over its useful life using the straight-line method.

The Beares trademark acquired is reflected at fair value and will be amortised over its useful life of 20 years.

	31 March 2015 Rm Audited	31 March 2014 Rm
2. Debtor costs		
Bad debts, repossession losses and bad debt recoveries	693.3	570.1
Movement in impairment provision	164.8	132.3
	858.1	702.4
3. Insurance investments – available-for-sale		
Listed		
Listed shares	846.5	701.9
Fixed income securities	869.1	713.1
Unlisted		
Money market	127.0	283.7
	1 842.6	1 698.7

Investments are classified as available-for-sale and reflected at fair value. Changes in fair value are reflected in the statement of comprehensive income.

In terms of the fair value hierarchy set out in IFRS 13, listed and unlisted investments are categorised as Level 1 and Level 2 respectively.

	31 March 2015 Rm	31 March 2014 Rm
4. Trade and other receivables		
Instalment sale and loan receivables	7 763.1	7 314.4
Provision for unearned maintenance income	(215.9)	(211.0)
Provision for unearned finance charges and unearned initiation fees	(241.5)	(230.6)
Provision for unearned insurance premiums	(726.6)	(802.7)
Net instalment sale and loan receivables	6 579.1	6 070.1
Provision for impairment	(1 294.3)	(1 129.5)
	5 284.8	4 940.6
Other receivables	111.1	138.3
	5 395.9	5 078.9

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 21.7% (2014: 21.1%) and the average term of the sale is 32.3 months (2014: 32.5 months).

	31 March 2015 Rm	31 March 2014 Rm
5. Purchase of Beares business		
Trademark at fair value	(61.1)	
Property, plant and equipment	(9.7)	
Inventory	(33.6)	
Accounts payable	8.7	
Deferred tax	17.1	
Gain on acquisition of Beares	12.0	
Total consideration	(66.6)	

The wholly owned subsidiary of the group, Lewis Stores (Pty) Ltd acquired the Beares business effective from 1 December 2014 from Ellerines Furnishers Proprietary Limited (in business rescue). The business consisted of the acquisition of 61 stores, the Beares brand, inventory and fixed assets. The purchase consideration was paid by cash and the assumption of liabilities.

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