

Lewis Group Limited  
Incorporated in the Republic of South Africa  
Registration number: 2004/009817/06  
Share code: LEW  
ISIN: ZAE000058236  
Bond Code: LEWI

**SHORT-FORM ANNOUNCEMENT:  
RESULTS ANNOUNCEMENT (INCLUDING SUMMARY AUDITED FINANCIAL  
STATEMENTS) FOR THE YEAR ENDED 31 MARCH 2020  
AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020**

**1. Introduction**

Shareholders are advised that the following have been distributed:

- the company's full announcement being the highlights, results commentary (which includes the cash dividend declaration referred to below) and the summary audited consolidated financial results for the year ended 31 March 2020 ("results announcement")
- the company's audited consolidated financial statements for the year ended 31 March 2020 ("audited financial statements")
- cash dividend declaration of 65 cents per share.

The integrated report for the year ended 31 March 2020 will be released on or before 30 September 2020.

**2. Highlights**

- Revenue up 5.2%
- Merchandise sales up 4.7%
- Gross profit margin at 41.0%
- Operating cost growth (excluding debtor costs) well controlled at 4.3%
- Debtor costs up 37.8% impacted by Covid-19 impairment provision
- Operating profit down 42.7%
- Earnings per Share down 38.5% to 232 cents
- Headline earnings per share down 30.8% to 260 cents
- Total dividend 185 cents per share (2019: 234 cents)
- Dividend payout ratio 79%

### **3. Results Commentary**

#### **Overview**

The Covid-19 pandemic and related national lockdown resulted in severe trading restrictions for the retail sector and continues to have a significantly adverse impact on the economy and the financial position of many South Africans.

Lewis Group delivered a solid trading and operational performance for the year before being impacted by the Covid-19 lockdown and subsequent restrictions. After the start of the lockdown on Friday 27 March 2020 in South Africa, the group lost crucial trading days over the March month end trading period. This resulted in lost merchandise sales of approximately R80 million and customer account collections of R180 million.

The most significant impacts of the Covid-19 lockdown on the financial results are as follows:

- the increase in the impairment provision of R 123.2 million as a result of the lost collections in the March trading period due to the store closures mandated by the Covid-19 lockdown.
- in response to the potential economic disruption caused by Covid-19 and its impact on future customer account payment behaviour, the IFRS 9 forward-looking economic overlay on the debtors impairment has been increased by R 189.5 million.
- an IFRS 16 related impairment charge of R26.6 million has been raised owing to the possible future impact of Covid-19 on the right-of-use assets.

The above Covid-19 adjustments resulted in the profit before taxation being reduced by R339.3 million with attributable earnings been reduced by R 243.3 million and headline earnings by R 223.5 million.

The directors have, however, shown confidence in the group's trading and financial prospects despite the effects of the pandemic and declared a total dividend of 185 cents per share for the year. The dividend is 20.9% lower than the prior year and represents a dividend payout ratio of 79%.

#### **Trading and financial performance**

After increasing merchandise sales by 6.9% for the first 11 months, trading in the last month of the financial year was significantly impacted by the start of the lockdown and

sales for March were 24.8% lower. Merchandise sales for the 12 months therefore slowed to a growth of 4.7%, with comparable store sales growing by 3.2%.

The group's traditional retail brands Lewis, Best Home and Electric, and Beares increased sales by 3.2%. The stores outside South Africa accounted for 18.0% of total sales. INspire, the omni-channel home shopping business, grew sales by 65.1% to R44.8 million. INspire is now reported as part of the traditional retail segment following the incorporation of the business into the Beares brand to align the group's offering to the urban, middle income market.

UFO grew merchandise sales by 10.8% to R530 million which contributed to the group's cash sales increasing by 7.2% for the 12 months.

Cash sales accounted for 43.1% (2019: 42.1%) of total sales. Credit sales grew by 2.9% and comprised 56.9% (2019: 57.9%) of total sales.

Other revenue, consisting of finance charges and initiation fees, insurance premiums and services rendered, increased by 5.8%.

Total revenue, comprising merchandise sales and other revenue, increased by 5.2% to R6.5 billion.

The gross profit margin at 41.0% (2019: 41.2%) remains at the upper end of the group's target range of 38% - 42%.

Operating costs, excluding debtor costs, were again well controlled and reflected an increase of only 4.3%, ahead of management's guided range of 6% to 8%.

Debtor costs grew by 37.8% or R277 million as the IFRS 9 impairment provision was increased by R210.9 million. Excluding the R312.7m increase as a consequence of Covid 19 outlined above, the impairment provision would have declined by R 101.8 million. The debtors' provision as a percentage of debtors increased from 42.0% to 44.1%. Debtor costs as a percentage of debtors at gross carrying value has increased from 13.3% to 17.6% (refer to Performance of debtor book below).

Following the adoption of IFRS 16 – Leases and also as a result of the future threat of Covid-19, an impairment charge of R26.6 million has been raised on the right-of-use assets.

These impairments have had an impact of R339.3 million on the group's operating profit which declined by 42.7% to R253.7million. The operating margin reduced from 7.2% to 3.9%.

Net finance costs benefited from a gain of R29.3 million on forward exchange contracts covering merchandise imports.

The performance for the year translated into a decline in headline earnings of 33.7% to R204.5 million while headline earnings per share declined by 30.8%.

Cash generated from operations totalled R636 million (2019: R653 million). The gearing ratio was 12% at year end with lease liabilities of R837.9 million being reflected on the balance sheet following the adoption of IFRS 16.

Shortly before year end the group accessed existing borrowing facilities as a precautionary measure to ensure liquidity during lockdown. However, no additional funding was required as the group remained cash positive during the lockdown period and the borrowings were repaid once the stores reopened.

### **Performance of debtor book**

Collection rates increased to 77.3% for the first 11 months of the financial year to February 2020 (2019: 75.7%). Owing to the loss of key trading days at the March month end due to lockdown, the collection rate for the year slowed to 74.5% (2019: 76.3%) and the level of satisfactory paid customers declined to 70.5% (2019: 71.4%).

The credit health of the group's customer base pre-lockdown is reflected in the R40.9 million decline in net bad debts for the year. Net bad debts as a percentage of debtors reduced to 13.9% from 15.1% in the prior year.

### **Expanding store footprint**

Following the opening of 19 and closure of 9 stores, the group expanded its store base to 794 at year end. Lewis continues to open smaller format stores which now comprises 46% of the brand's stores. During the year a further 150 stores across the portfolio were refurbished. The store footprint outside South Africa in the neighbouring countries of Namibia, Botswana, Eswatini and Lesotho has increased by 5 stores to 125.

### **Share repurchase programme**

The group repurchased 3.3 million shares during the financial year, at an average market price of R30.72 per share. Since the commencement of the current share repurchase programme the group has bought back 11.9 million shares at an average price of R30.43 per share. At the annual general meeting (AGM) in October 2019, shareholders granted management the authority to repurchase a further 10% of the issued share capital. At the end of the 2020 financial year, 8.2% of this mandate was still available for share repurchases. The company will seek shareholder approval to repurchase a further 10% of the issued share capital at the forthcoming AGM in October 2020.

### **Outlook**

While Covid-19 continues to have a significant impact on the business, the group's strategy is unchanged and is being consistently applied through the crisis. Management remains flexible in the execution of the strategy and continually adapts and adjusts its

shorter-term operating plans in response to specific Covid-19 related challenges and opportunities.

The group's business model has proved resilient during the trading restrictions while the strength of the group's balance sheet and cash position ensured that management did not need to access any external funding during the lockdown period.

Trading has been robust following the reopening of all stores from 1 June 2020 when the country moved to lockdown level 3. Merchandise sales for June increased by 22.3% and July by 16.8%. The current sales momentum is being supported by pent up demand from savings accumulated during lockdown.

Consumer spending is expected to contract further in a post Covid-19 recessionary environment while customers in the group's lower to middle income target market are vulnerable to the rising levels of unemployment in the country due to the impact of Covid-19.

The group will continue to invest for longer-term growth and plans to open 20 new stores across its trading brands in the 2021 financial year.

### **Dividend declaration**

Notice is hereby given that a final gross cash dividend of 65 cents per share in respect of the year ended 31 March 2020 has been declared payable to holders of ordinary shares. The number of shares in issue as of the date of declaration is 79 212 225. The dividend has been declared out of income reserves and is subject to a dividend tax of 20%. The dividend for determining the dividend tax is 65 cents and the dividend tax payable is 13 cents for shareholders who are not exempt. The net dividend for shareholders who are not exempt will therefore be 52.00000 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 tax 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	15 September 2020
Date trading commences "ex" dividend	16 September 2020
Record date	18 September 2020
Date of payment	21 September 2020

Share certificates may not be dematerialised or rematerialised between 16 September 2020 and 18 September 2020, both days inclusive.

For and on behalf of the board

Hilton Saven  
*Independent  
non-executive  
chairman*

Johan Enslin  
*Chief executive officer*

Jacques Bestbier  
*Chief financial officer*

Cape Town  
25 August 2020

#### **4. Auditors Report in Audited Financial Statements**

Our independent auditors, PricewaterhouseCoopers, have expressed an unmodified audit opinion on the audited financial statements for the year ended 31 March 2020.

The independent auditors report includes a section on key audit matters. The key audit matters are:

- Expected credit losses on trade receivables
- Valuation of the right-of-use assets and lease liabilities recognised on adoption of IFRS16, Leases.

The full independent auditor's report is set out on pages 3 to 8 of the audited financial statements. Refer <https://www.lewisgroup.co.za/wp-content/uploads/2020/08/Annual-Financial-Statements-for-the-year-ended-31-March-2020.pdf>

#### **5. Short Form Announcement**

This short-form announcement is the responsibility of the company's directors and is a summary of the results announcement and does not contain full or complete details. The results announcement and the audited financial statements can be downloaded from <https://senspdf.jse.co.za/documents/2020/jse/isse/LEW/FY20.pdf> and on the group's website [www.lewisgroup.co.za](http://www.lewisgroup.co.za) as follows:

Results announcement: Refer <https://www.lewisgroup.co.za/wp-content/uploads/2020/08/Audited-Final-Results-for-the-year-ended-31-March-2020.pdf>

Audited financial statements: Refer <https://www.lewisgroup.co.za/wp-content/uploads/2020/08/Annual-Financial-Statements-for-the-year-ended-31-March-2020.pdf>

The full results announcement may be requested at the company's registered office, at no charge, during normal business hours. Any investment decision in relation to the company's shares should be based on the full announcement.

Cape Town  
25 August 2020

Sponsor  
UBS South Africa (Pty) Ltd

Debt Sponsor  
Absa Bank Limited, acting through its Corporate and Investment  
Banking division