

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:
SUMMARY UNAUDITED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED
30 SEPTEMBER 2020.

1. Introduction

Shareholders are advised that the following has been distributed:

- unaudited interim results for the six months ended 30 September 2020 (“results announcement”)
- cash dividend declaration of 133 cents per share.

2. Highlights

- Revenue decreased by 1.6% to R3.0 billion
- Merchandise sales decreased by 4.9% to R1.6 billion
- Gross profit margin up to 40.5%
- Cash generated from operations at R611.2 million
- Operating profit increased by 13.6% to R276.8 million
- Earnings per share increased by 10.6% to 237 cents
- Headline earnings per share increased by 9.9% to 236 cents
- Interim dividend increased by 10.8% to 133 cents per share

3. Results Commentary

Overview

Lewis Group overcame severe trading restrictions in the first two months of the national Covid-19 lockdown to recover strongly and increase operating profit by 13.6% for the first six months of the 2021 financial year.

All stores in South Africa were closed from the start of the national lockdown on 27 March 2020. No sales were recorded until 18 May when trading restrictions were eased slightly to allow e-commerce sales. Stores reopened on 1 June 2020.

The board continues to demonstrate confidence in the group’s prospects by declaring an interim dividend of 133 cents per share, an increase of 10.8% on the prior year, based on a dividend payout ratio of 55%.

Trading and financial performance

Following the reopening of the stores in South Africa at the beginning of June, the group experienced strong customer demand across all brands, with sales growth initially being supported by pent up demand and savings accumulated during lockdown. This momentum was maintained and contributed to sales for the four months to end September 2020 increasing by 20.1%.

Cash sales for the four months increased by 46% with credit sales growing by 1.5%.

The group lost approximately R360 million in merchandise sales and R250 million in customer account collections resulting from the lockdown.

Owing to these trading conditions, merchandise sales for the six months were 4.9% lower at R1.65 billion. Sales in the 125 stores outside South Africa grew by 3.8% and accounted for 18.8% of total sales.

During the past six months the group opened 12 and closed 1 store, increasing the store footprint to 805.

Other revenue, consisting of finance charges and initiation fees, insurance premiums and services rendered, was less impacted by the lockdown owing to the annuity nature of certain income streams and increased by 2.7%.

Total revenue, comprising merchandise sales and other revenue, decreased by 1.6% to R3.0 billion.

The gross profit margin expanded by 20 basis points to 40.5% and the gross profit margin remains well within the group's target range of 38% - 42%.

Operating costs, excluding debtor costs, were tightly managed through this period and reduced by 9.1%, with lower transport, occupancy and administration costs in the Covid-19 operating environment. Marketing expenditure reduced significantly owing to limited activity in April and May, and strategic changes implemented in the marketing strategy post lockdown.

The debtors book grew by 6.5% to R5.7 billion and debtor costs increased by 35.7%. The impairment provision was increased by R34.4 million for the first half. The debtors' impairment provision as a percentage of debtors increased from 39.8% to 44.7%. Debtor costs as a percentage of debtors at gross carrying value has increased from 5.5% to 7.1%.

Good expense management contributed to operating profit increasing by 13.6%, with the operating profit margin improving by 120 basis points to 9.1%.

Net finance costs increased by R20.4 million owing to once off interest received from SARS of R20.1 million in the comparative period and the gain on forward exchange contracts being R6.3 million lower than in 2019.

Headline earnings increased by 6.0% to R181.5 million, with headline earnings per share (HEPS) increasing 9.9% to 236 cents, reflecting the benefit of the share buy-back programme.

Cash generated from operations increased by R273.6 million to R611.2 million despite the impact of lockdown in the first two months of the reporting period.

The group's robust balance sheet and cash position ensured that no bank funding was required as the business remained cash positive during the lockdown period. At the end of September 2020, the group was unborrowed, with a gearing ratio of 5.3% resulting from lease liabilities now included in the statement of financial position.

Performance of debtor book

The debtor book has performed satisfactorily in the six months to September 2020 and the board believe that the impairment provisions are adequate to meet future bad debts.

Collection rates declined to 66.5% (2020: 79.6%) for the first six months, impacted by the slow collections during the initial stages of lockdown. Collections recovered and averaged 73.2% for the second quarter. The level of satisfactory paid customers steadily improved post lockdown to reach 69.5% at end September, compared to 74.2% in the prior period.

Net bad debts as a percentage of debtors reduced to 6.5% from 8.7% in the prior year.

Share repurchase programme

The group repurchased 1.6 million shares during the reporting period, at an average market price of R16.91 per share. Since the commencement of the current share repurchase programme in 2017, the group has bought back 13.6 million shares at an average price of R28.65 per share. At the annual general meeting (AGM) in October 2020, shareholders granted management the authority to repurchase a further 10% of the issued share capital.

Outlook

Extensive merchandise and marketing promotions have been developed for the two biggest trading months of the year, covering Black Friday in November and the festive season in December, creating an opportunity for the group to gain market share.

Trading conditions are expected to become more challenging into the 2021 calendar year. Customers in the group's lower to middle income target market remain vulnerable to the rising levels of unemployment in the country due to the impact of Covid-19.

The group remains on track to open 20 new stores across its trading brands in the 2021 financial year.

Dividend declaration

Notice is hereby given that an interim gross cash dividend of 133 cents per share in respect of the period ended 30 September 2020 has been declared payable to holders of ordinary shares. The number of shares in issue as of the date of declaration is 75 235 607. 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 133 cents and the dividend tax payable is 26.6 cents for shareholders who are not exempt. The net dividend for shareholders who are not exempt will therefore be 106.40000 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	19 January 2021
Date trading commences "ex" dividend	20 January 2021
Record date	22 January 2021
Date of payment	25 January 2021

Share certificates may not be dematerialised or rematerialised between 20 January 2021 and 22 January 2021, 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 November 2020

4. Short Form Announcement

This short-form announcement is the responsibility of the company's directors and is a summary of the unaudited interim results announcement and does not contain full or complete details. The unaudited interim results announcement can be downloaded from <https://senspdf.jse.co.za/documents/2020/jse/isse/LEW/HY21.pdf> and on the group's website www.lewisgroup.co.za. 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 November 2020

Sponsor
UBS South Africa (Pty) Ltd

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