

Lewis Group Limited  
Incorporated in the Republic of South Africa  
Registration number 2004/009817/06  
JSE share code: LEW  
ISIN: ZAE000058236  
Bond Code: LEWI  
("Lewis Group" or "Lewis")

## GCR PLACES LEWIS' RATING OF A(za) ON POSITIVE OUTLOOK FOLLOWING STRONG EARNINGS PERFORMANCE

Lewis Group is pleased to advise that on 24 August 2021 Global Credit Ratings ("GCR") affirmed Lewis Group's Long-term national scale Issuer rating at A(za) and Short-term rating at A1(za). The Outlook has been revised to Positive, from Stable previously.

The ratings are as follows:  
National long-term rating: A(za)  
National short-term rating: A1(za)  
Outlook: Positive

The announcement released by the GCR follows:

The Positive Outlook on Lewis' ratings factor in a healthier debtors book and improved operational efficiencies which should continue to enhance profitability margins. Furthermore, the group remains conservatively leveraged and has strong liquidity coverage.

Lewis reported growth in revenues of 4.2% in FY21, despite losing R360m in sales and R250m in collections due to COVID19 related disruptions in the first quarter of their financial year. Revenue growth was underpinned by a strong recovery in merchandise sales in the second half of the year driven by an increase in cash sales of 25.9%, supported by the extension of social relief grants and relatively higher levels of disposable income in the group's target market. Operating costs have continued to be well managed and recorded a 2.9% reduction for the year. The adoption of enhanced collection procedures had a positive impact on the debtors book which saw the proportion of satisfactory paid customers increase to 74.4% (FY20: 70.5%), surpassing previously communicated targets. The improved performance led to a R110m release from the impairment provision and an overall reduction in debtor costs as a percentage of gross debtors to 14.3% (FY20: 17.6%). Resultantly, the revenue based operating margin made a strong come-back to 10.3% from 3.9% in the prior year, recording the highest level since FY16. GCR expects the margin to continue trending in the 10%-15% target range over the medium term, barring any additional shocks to the economy.

Despite the improved performance, in GCR's view, the group's relatively narrow product diversification and concentration of sales by brand remain rating constraints. The group also has limited geographic diversification, with c.85% of revenue generated in South Africa. Nonetheless, the group's growing footprint, with 807 stores at FY21 and at least 15 additional openings planned in FY22, enhances their reach to ensure accessibility to their

respective target markets. Some stores were impacted by the civil unrest and looting that broke out during the June-July 2021 period, but any damage suffered is expected to be fully recovered from insurance proceeds.

Lewis' strong leverage profile is underpinned by the absence of any interest-bearing debt on its balance sheet since FY19, notwithstanding the temporary draw down at FY20 to shore up liquidity as a counter measure to the effects of the pandemic. Future debt draw downs on available facilities are expected to be largely managed in line with working capital demands during peak trading periods. As such, the group is anticipated to continue to report a net ungeared balance sheet, excluding lease liabilities. Available cash flows will be applied to pay out dividends, fund the ongoing share buy-back programme and minimal expansionary capex. This is backed by the unutilised available funding lines from multiple banks and Lewis' strong cash flow generation capability. Thus, GCR's uses versus sources liquidity coverage ratio is projected in excess of 2x over the upcoming 12 months.

#### Outlook Statement

The Positive Outlook reflects GCR's expectation that positive sales growth coupled with the strong performance of the debtors book will be sustained and will translate into enhanced margins. Lewis is also expected to maintain a net ungeared balance sheet and robust liquidity coverage.

#### Rating Triggers

Upward rating migration could result from continued positive earnings performance with the operating margin sustained above 10%, or improved product diversification, while maintaining financial discipline. The outlook may be revised to stable if the debtors book performance deteriorates, or there is an unexpected increase in leverage

Cape Town

24 August 2021

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