

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 2021.

## **1. Introduction**

Shareholders are advised that the following has been distributed:

- unaudited interim results for the six months ended 30 September 2021 (“results announcement”)
- cash dividend declaration of 195 cents per share.

## **2. Highlights**

- Revenue increased by 12.2% to R3.4 billion
- Merchandise sales increased by 20.7% to R2.0 billion
- Cash generated from operations at R595.1 million
- Gross profit margin at 40.2%
- Operating profit increased by 23.3% to R341 million
- Earnings per share increased by 43.8% to 342 cents
- Headline earnings per share increased by 39.7% to 330 cents
- Interim dividend increased by 46.6% to 195 cents per share

## **3. Results Commentary**

### **Introduction**

The group posted strong sales growth for the first six months of the 2022 financial year despite the impact of the civil unrest in KwaZulu-Natal and Gauteng on trading in the July to September quarter. The prior period included the Covid-19 hard lockdown in South Africa when all the group’s stores were closed for at least six weeks.

The quality of the group’s debtors’ book has continued to improve, with collection rates strengthening, the percentage of satisfactory paid accounts increasing and debtor costs continuing to decline. These factors, together with continued tight expense management, have contributed to the group’s operating profit increasing by 23.3%.

The board has increased the interim dividend by 46.6% to 195 cents per share (H1 2021: 133 cents), based on a 55% payout ratio.

### **Trading and financial performance**

Merchandise sales increased by 20.7% to R1.99 billion, supported by high levels of stock availability during a period of significant supply chain challenges. Credit sales grew by 24.4% and cash sales by 17.1%, with credit sales accounting for 50.6% (H1 2021: 49.1%) of total merchandise sales. Comparable store sales increased by 17.9%.

Sales in the stores outside South Africa, which represent 15.8% of the store base, increased by 17.5% and accounted for 18.3% of the group's sales.

During the past six months the group opened a net 10 new stores across all brands, increasing the store footprint to 817.

Other revenue, consisting of interest income and initiation fees, insurance revenue and ancillary services income, increased by 2.2%, with interest income being impacted by the lower interest rates over the past two years.

Total revenue, comprising merchandise sales and other revenue, increased by 12.2% to R3.4 billion.

The gross profit margin at 40.2% (H1 2021: 40.5%) remains within the group's target range of 40% - 42%.

Operating costs, excluding debtor costs, increased by 16.9% mainly due to significant cost savings in the prior period during the six-week hard lockdown. Operating costs grew by 6.3% when compared to the six months ended September 2019.

Debtor costs reduced by 32.8% and debtor costs as a percentage of debtors at gross carrying value reduced from 7.1% to 4.7%. Collections rates improved to 78.7% for the six months (H1 2021: 66.5%).

The level of satisfactory paid customers increased to 75.2% (H1 2021: 69.5%), the highest in 14 years.

The debtors' impairment provision as a percentage of debtors reduced from 44.7% to 42.2% for the current period.

Solid merchandise sales growth and reduced debtor costs contributed to operating profit increasing by 23.3% to R341.2 million, with the operating profit margin improving from 16.8% to 17.1%.

Net finance costs declined by R16.2 million due to lower interest on lease liabilities while the group had no borrowings during this period.

Headline earnings increased by 24.5% to R226 million, with headline earnings per share (HEPS) increasing 39.7% to 330 cents and reflecting the positive leverage effect from the group's aggressive share repurchase programme. This is in line with the earnings forecast range provided in the group's trading statement released on SENS on 8 November 2021.

Management has continued to pursue its strategy of increasing inventory levels to ensure the group has adequate stock cover to meet customer demand and to counter the ongoing challenges in the supply chain. These include the global shortage of shipping containers and severe local port congestion.

Cash generated from operations at R595.1 million was marginally lower than the prior period.

The group's balance sheet remains robust and at the end of September 2021 the group had no borrowings, with a gearing ratio of 9.3% resulting from lease liabilities.

#### **Update on impact of civil unrest**

The widespread civil unrest in KwaZulu-Natal and parts of Gauteng during July 2021 had a significant impact on the Group's store operations, with 57 stores being damaged and looted.

By 30 September 2021, 51 of the stores had reopened. The remaining six stores will reopen once damages have been repaired. The group's total South African Special Risks Insurance Association (SASRIA) claim amounts to approximately R78.8 million (excluding VAT), including stock losses of R40.2 million and R38.6 million for damaged assets. A total of R42.5 million of the claim has been received and recognised in the results for the reporting period. The balance of the insurance claims of R36.3 million are expected to be received before the end of the financial year.

The group has separate cover for business interruption losses and management are still assessing the value of these losses. Management estimates that the group lost sales of approximately R38.6 million for the period that stores remained closed due to the civil unrest.

#### **Share repurchase programme**

The group repurchased 5.4 million shares at a cost of R194.5 million during the six-month period, at an average price of R35.94 per share. Since the commencement of the current share repurchase programme in 2017, the group has bought back 22.7 million shares at an average price of R29.52 per share. At the annual general meeting in October 2021, shareholders granted management the authority to repurchase a further 10% of the issued share capital.

## **Outlook**

Management expects trading conditions to become increasingly challenging in the second half of the financial year with further tightening of the domestic economy.

High unemployment levels, rising interest rates and the sensitivity of the group's core target market to higher fuel and food prices are expected to constrain spending in the months ahead. Further contributing to the tougher trading conditions are the widespread electricity load shedding which disrupts trade and impacts sales, as well as Covid-19 which continues to pose a risk.

The sales and collections momentum for the first half of the year continued into October. The group's good stock position is a competitive advantage going into Black Friday and the festive season and will be supported by targeted marketing and promotions to drive sales growth.

## **Dividend declaration**

Notice is hereby given that an interim gross cash dividend of 195 cents per share in respect of the six months ended 30 September 2021 has been declared payable to holders of ordinary shares. The number of shares in issue as of the date of declaration is 65 960 172. 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 195 cents and the dividend tax payable is 39 cents for shareholders who are not exempt. The net dividend for shareholders who are not exempt will therefore be 156.00000 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	18 January 2022
Date trading commences "ex" dividend	19 January 2022
Record date	21 January 2022
Date of payment	24 January 2022

Share certificates may not be dematerialised or rematerialised between 19 January 2022 and 21 January 2022, 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  
24 November 2021

#### **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/2021/jse/isse/LEW/HY22.pdf> and on the group's website [www.lewisgroup.co.za](http://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  
24 November 2021

Sponsor  
UBS South Africa (Pty) Ltd

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