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LEWIS GROUP LIMITED

https://www.lewisgroup.co.za/investors/

Annual General Meeting
23rd October 2020
Financial Year End: 30th June 2020

Proxies voted
The Ditkeni Trust

The Integrated Annual Report (Report) is fairly brief and we did not find supplementary reports giving more detailed information. The company strategy which should inform everything the company does and form the basis of executive remuneration is more a broad statement of intent than a strategy which is most concerning, the Report states *Lewis Group's strategy is to offer exclusive merchandise to customers across all market segments and income groups in Southern Africa, focusing on the retailing of furniture, home appliances, electronic goods and homewares on credit and cash.*

We do not support the payment of committee fees to all directors who attend committee meetings rather than to members of said committees, the apparent effect of this is that all directors attend all committee meetings other than the Social and Ethics Committee, perhaps that is the only committee meeting that all directors should attend.

The board independence improves with the sad death of Mr Smart, he served the company for 50 years of which 18 were as CEO and remained a director. A most loyal director but hardly independent. We are concerned about the independence of the Chairman given his long service but are pleased that the company now complies with the King Code since he (the Chairman) stepped down from the Audit Committee but we deplore the fact that he continues to attend meetings of that committee.

The Social, Ethics and Transformation Committee Report presented is totally inadequate and provides no real information of what the company has achieved in this regard.

The Report is extraordinarily dated in presentation and style, no concessions are made to the fact that the majority of users will read the Report on the screen of a laptop, other computer or tablet. The pages are laid in Portrait format rather than Landscape and there are no hyperlinks.

	Resolution	Rationale	Vote	Outcome of AGM
	Presentation of the Audited Annual Financial Statements of the Company	We prefer to have the Annual Financial Statements (AFSs) presented for adoption by the AGM, nevertheless we are pleased that they are presented given that many companies no longer present their reports. The audit committee is not engaging with the impending regulatory requirement for audit firm rotation and we are concerned that so many companies leaving this till the required date runs the risk of creating a chaotic situation. The auditors have issued a clean audit report.		
	Presentation of Social, Ethics and Transformation Committee Report	The Social, Ethics and Transformation Committee Report is extremely brief at just over 600 words. Little information is provided other than the members of the committee and the role of the committee. In particular no hard information is provided of the achievements of this committee and this reader was left wondering what was the purpose of this report. A very poor effort.		
	Ordinary Resolutions			
1	Re-election and election of directors	We have raised concerns regarding the independence of this board and the Chairman for some time. We are pleased that subsequent to the 2019 Report but before the 2019 AGM the Chairman stepped down from the Audit Committee after we noted this was not in compliance with the King Reports on Corporate Governance (King) as this was a key concern of ours. Before considering the appointment of individual directors it is appropriate to consider the overall composition of the board, we consider the following four key issues: Independence, Continuity, Skills and Diversity. **Independence:** The board comprises 5 (63.5%) independent directors, 1 (12.5%) non-executive director and 2 (25%) executive directors. However, 2 directors, including the Chairman, have very long service of 16 and 15 years. This long tenure does bring into question their independence, the Report states *Directors are required to annually evaluate their independence* … this is not very reassuring. Given the length of		

	Resolution	Rationale	Vote	Outcome of AGM
		tenure of the 2 directors and the questioning of their independence, the overall independence of the board is not what we would like to see, however, with the retirement as a director of the very long serving former CEO, the independence is improving. **Continuity:** We do appreciate that there have been a number of new appointments to the board in recent years, however 67% of non-executives having served for 3 or less years and the other 33% have service of over 15 years. These changes have clearly brough more diversity and fresh skills and ideas to the board, but this level of new appointments vs very long serving directors does speak of poor continuity planning. **Skills:** As with far too many South African companies the board is dominated by members with financial skills with 5 out of 6 non-executives trained in accounting or economics. The CFO of course is also an accountant. We would like to see a greater spread of skills in particular IT and Marketing. **Diversity:** The diversity of the management of the company is very white male still and this is not all reflective of the company's target market. The board itself is meeting its rather low diversity targets of 25% female and 25% black – again we note that this target is not reflective of the company's target market. The company reports that 38% of its directors are female and 38% are black, they correctly note that in terms of BBBEE rules Mr Njikizana is not considered black as he is not South African. He does, however bring greater diversity to board discussions. A difficult board from which to plan for the future given the number of very long serving directors and directors with very short service, as noted the spread of skills is also limited. However, the board is quite small with only 6 non-executives and 2 executives so there is room to introduce new directors, skills and diversity over the next few years.		

	Resolution	Rationale	Vote	Outcome of AGM
1.1	Re-election Ms Daphne Motsepe as director	Ms Motsepe, 63, has been a director for 3 years. She is suitably skilled and experienced and her attendance in 2020 and 2019 was impeccable. The Report does not list any other current listed company directorships for Ms Motsepe, however she is listed as a director of Edcon on that company's website. She does not appear to be over-committed.	FOR	FOR 99.9%
1.2	Re-election of Mr Duncan Westcott as director	Mr Westcott, 71, has been a director for 3 years. He is suitably skilled and experienced and his attendance in 2020 and 2019 was impeccable. He is a director of 2 other listed companies. We do question Mr Westcott's judgement in accepting the role of chairman of the Audit Committee given that he was a partner of the current auditors for over 20 years. However, despite this concern we do not oppose his appointment as a director.	FOR	FOR 99.5%
1.3	Re-election of Mr Hilton Saven as director	Mr Saven, 67, has been a director for 16 years and as such his independence is questioned. He is suitably skilled and experienced and his attendance record was impeccable. We do not believe it is appropriate that the Chairman of the board attend all committee meetings and in particular the audit committee. Mr Saven is the Chairman of Lewis Group Ltd, Chairman of Truworths Ltd and serves on a number of other boards. We are reluctant to oppose his reappointment given the concerns regarding continuity and the stage of development of this board but are concerned that by accepting chairmanship of the Truworths board he is now overcommitted. We do not believe that anybody may chair more than one company board, but reluctantly support Mr Saven's reappointment.	FOR	FOR 90.5%
2	Election of members of the audit committee	We were pleased to note that after the 2019 Report was issued but prior to the 2019 AGM, Mr Saven stepped down as chairman of the audit committee. King IV and prior to that King III are absolutely clear – the chairman of the company may not serve as a member of the audit committee. We applaud the change but remain concerned that Mr Saven continues to attend all audit committee meetings.		

	Resolution	Rationale	Vote	Outcome of AGM
		The audit committee report makes no mention of the impending regulatory requirement for audit firm rotation after 10 years, the current audit firm as noted below has served for 29 years.		
2.1	Election of Ms Daphne Motsepe as member of the audit committee	Ms Motsepe has been evaluated under 1.1 above and we support her reappointment to the board and to this committee.	FOR	FOR 99.6%
2.2	Election of Mr Tapiwa Njikizana as a member of the audit committee	Mr Njikizana, 44, was appointed to the board at the last AGM, given this it is not possible to fairly comment on his attendance record. He is suitably qualified to serve on this committee although we do have a concern that he has had so little exposure to Lewis Group.	FOR	FOR 99.9%
2.3	Election of Mr Duncan Westcott as member of the audit committee	As noted under 1.2 above Mr Westcott served as a partner in the office of the current auditors for over 20 years, given the length of service of the current auditors (29 years) Mr Westcott must have been a senior partner in the audit firm during the time they have served as auditors of Lewis Group, as such it is most inappropriate that he sit on this committee let alone chair this committee. We further note that this committee makes no mention in its report of the need for audit firm rotation. As noted above, we are pleased that the Chairman of the company stepped down as chair and member of this committee at the last AGM, however he continues to attend all audit committee meetings which raises the question of how effective Mr Westcott has been in asserting his role as chair of this committee. We oppose Mr Westcott's appointment to the committee.	AGAINST	FOR 99.8%
3	Approval of reappointment of auditors	The 2019 AGM saw 27% of shareholders oppose the reappointment of PriceWaterhouseCoopers (PWC) as auditors. The Audit Committee Report makes no mention of this nor does it mention the fact that compulsory audit firm rotation will affect the company and will be compulsory from 2023. This will require auditors to be rotated after 10 years in office, PWC have been in office for 29 years. The report correctly identifies the responsible auditor and his date of appointment. We again oppose the reappointment of PWC as their independence is questioned after nearly 3 decades in office.	AGAINST	FOR 89.2%

	Resolution	Rationale	Vote	Outcome of AGM
	Advisory Resolutions			
1.1	Resolved, through a non-binding advisory vote, that the Company's remuneration policy, set out in the Integrated annual report, be accepted and endorsed	The Remuneration Committee (Remco) consists of all 6 non-executive directors and the CEO attends by invitation. **The Remco is unnecessarily large and effectively ceases to be a committee given that all directors are members of the committee. We question the independence of the Chairman of this committee and the Chairman of the board given their very long service, however the balance of independence of this committee does shift to the better with the sad death of Mr Smart (he had been CEO for 18 years and served the company loyally for 50 years and as such we did not consider him to be independent).** The Report notes *The Remuneration Policy and Implementation Report received positive votes of 79.9% and 82.9% respectively from shareholders at the 2019 annual general meeting (AGM) held on 25 October 2019 (83.6% and 89.8% in 2018). The remuneration committee therefore was not required to engage with shareholders.* **This is correct, these resolutions require a 75% approval and the support was above that level. However, support is clearly declining and the 20% of shareholders voting against this resolution is not insignificant. We expect a more constructive statement than that the committee is not required to engage. We are not surprised that the reappointment of Prof Abrahams (the chair of this committee) as a director was opposed by over 40% of shareholders at the 2019 AGM.** Executive remuneration consists of Guaranteed Pay, Short-Term Incentives (STIs) in the form of an annual cash-based performance bonus and Long-Term Incentives (LTIs) in the form of medium and long-term share-based incentives. Guaranteed Pay is set at the market median and are benchmarked **No details of companies used in the benchmarking are not disclosed nor is it disclosed whether such benchmarking is done independently.**	AGAINST	FOR 93.1%

	Resolution	Rationale	Vote	Outcome of AGM

		STIs are based on *all* ***or some of*** *the following financial and operating targets*: Revenue growth.; Merchandise sales growth; Gross profit margin; Operating cost management; Debtor cost management and debtor performance; Net profit before taxation; Headline earnings per share.
		No mention is made of customer satisfaction although the report does talk of customer commitment but this is not dealt with or reflected in the Remco report. We would prefer to see firm metrics rather than the vague *some of* used to determine STIs.
		STIs are paid as a percentage of Guaranteed Pay (GP) on achievement of targets as follows:
		    <90% of target – 0% of GP;
		    90% to 100% of target – 25% to 50% of GP;
		    100% to 106% of target – 50% to 100% of GP
		    >110% of target – 100% to 150% of GP.
		A bit confusing as to what happens between 106% and 110% of target.
		The Report states *The targets for revenue growth, merchandise sales growth, net profit before taxation and headline earnings per share are not disclosed as this is considered by the board to be market and price sensitive information*. Fair enough but it does make it difficult to assess the policy, we refered to implementation to get a better idea if the targets are appropriate, but were none the wiser after that.
		LTIs consist of Lewis Executive Retention Scheme and Lewis Performance Share Scheme.
		The Retention Scheme requires executives to invest a minimum of 10% of their bonus in shares which are held for three years by the company whereafter they are transferred to the employee.
		The scheme effectively results in the executives losing the percentage of their bonus invested in shares if they leave the employ of the company. It further links that portion of their bonus to share performance.		

	Resolution	Rationale	Vote	Outcome of AGM
		The Performance Share Scheme may make awards which vest after 3, 4 or 5 years. The performance criteria for 3 year share awards are HEPS (Headline Earnings Per Share) and the quality of the debtors book. No ratio between these performance criteria is provided. These targets are clearly disclosed and clearly marked if they were achieved or not. The 4 and 5 year share awards criteria are HEPS and 1 of a number of other criteria which may be determined at the discretion of the Remco. Participants in the share schemes are at the discretion of the Remco and they may at their discretion make special awards. Malus and clawback shall apply from 2021 onwards. **The number of share schemes and variations makes for an unnecessary level of complication.** **However, the key issues for us in not supporting this resolution are:** **1 Customer satisfaction and service are nowhere dealt with and do not form part of the reward structure which is particularly concerning given that the company is a retailer.** **2 The remuneration policy has no link to the stated company strategy of *Lewis Group's strategy is to offer exclusive merchandise to customers across all market segments and income groups in Southern Africa, focusing on the retailing of furniture, home appliances, electronic goods and homewares on credit and cash*. The strategy as stated in the Report is rather a broad statement of intent rather than a strategy and this may be the problem facing the Remco. Nevertheless, executive remuneration must be linked to company strategy.**		
1.2	Resolved, through a non-binding advisory vote, that the Company's implementation report, set out in the	Annual average pay increases for staff were 4% and for executives and management averaged 6%. This is the opposite of most companies and we do not favour the widening if the wage gap. Actual increases for the CEO and CFO we calculate at 8.7% and 11.1% respectively.	AGAINST	AGAINST 42.9%

	Resolution	Rationale	Vote	Outcome of AGM
	Integrated annual report, is accepted and endorsed	**Executive salary increases are inappropriate particularly given market conditions and increases awarded to staff. We accept that executive salaries are low but this must be properly addressed and motivated if appropriate.** With regard to STI's the Report notes that as a result of Covid the results were adjusted and consequently all targets were met. The effect of this was to increase bonuses for the CEO and CFO by 61.0% and 80.0% respectively. **We note that the lockdown started on 26 March and the year-end is 31 March so the effect referred to by the Remco must largely have been on provisions. The adjustments were to double HEPS and reduce debtor costs significantly. Without further information, it is difficult to assess whether the adjustments are fair and appropriate.** The LTI awards disclose the number of shares awarded in terms of the share schemes to the CEO and CFO as 110 985 valued at R 3.706m and 24 118 shares valued at R 0.806m respectively. **We could not see what date was used to determine the value of those shares as readers of this report will no doubt be award that the share price of Lewis Group halved in late March which would effectively halve the values of the LTIs awarded.** **Executive remuneration is modest by the standards of many other companies, but Lewis Groups performance has perhaps not justified greater rewards. We do not like the high base pay increases which have a knock on as STI and LTI are based on that pay.** **The adjustments to actual achieved for STI are insufficiently explained and LTI share price is confusing.**		

	Resolution	Rationale	Vote	Outcome of AGM
	Special Resolutions			
1	Resolved that the fees of the non-executive directors be approved for the period from 1 July 2020 until 30 June 2021	Directors, including the Chairman of the company, are paid a base fee plus fees for committee meetings. We favour a flat fee for the chairman of a company and do not support the payment of committee fees to the chairman. We are astonished to see that all members of the board are paid fees for all the committees even when they are not members of that committee, we questioned earlier in the report the fact that all directors attend all meetings as we consider this inappropriate. We consider it even more inappropriate to pay directors committee fees for committees of which they are not members. The resolution states *All non-executive directors who attend the committee meetings by invitation at the request of the board shall be eligible to receive the same fee as if they were a member of the committee.* The effect of this is that every director attends every committee meeting other than the Social and Ethics Committee. We deplore this practice. We favour an attendance fee component to directors' fees as some measure of performance and oppose the flat fee adopted by Lewis Group. Fees are not high for a company of the size of Lewis Group. We would support an appropriate adjustment to the Chairman's and directors' fees and the inclusion of an attendance fees for directors and that only relevant directors are invited to meetings. We strongly oppose the current method of paying fees.	AGAINST	FOR 95.8%
2	Resolved that board is hereby authorised to continue to issue Notes under the Company's DMTN Programme	As noted last year, there is insufficient information provided to exercise fair and proper judgement on this resolution. The notice refers to a shareholder resolution passed in 2013. That resolution and any Notes issued between 2013 and the year-end are not provided. The maximum nominal amount of such notes at R 2b is extraordinary. Without proper and easy to follow information the resolution cannot be supported.	AGAINST	FOR 99.9%

	Resolution	Rationale	Vote	Outcome of AGM
3	Resolved that, to the extent required by sections 44 and 45 of the Companies Act, the Company may provide direct or indirect financial assistance, to any of its present or future subsidiaries and/or any other company or corporation that is or becomes related to or inter-related with the Company for any purpose or in connection with any matter	This resolution states *to provide financial assistance to its subsidiaries and other related and inter-related companies and corporations including pursuant to the Company's DMTN Programme.* As noted under Special Resolution number 2 above, we have insufficient information to reach any conclusion regarding the DMTN Programme. Consequently this resolution cannot be supported.	AGAINST	FOR 99.3%
4	Resolved that the Company hereby approves, as a general approval, the acquisition by the Company or any of its subsidiaries the ordinary shares of the Company	Our base position is that we do not support general repurchases of company shares as these tend to be dilutive of minority interests. This is a broad resolution empowering the company or any of its subsidiaries to purchase up to 10% of the issued share capital of the company at a price no greater than 10% above the average traded price. No reasons are given as to why or when the board would exercise such a right and as such we can find no reason to change our position on the repurchase of company shares.	AGAINST	FOR 99.9%
	Ordinary Resolutions			
4	Resolved that directors of the Company be authorised to do all things and sign all documents as necessary for the implementation of the resolutions passed at this meeting	This is an administrative matter.	FOR	FOR 99.9%

AGM OUTCOMES

The AGM was fairly well attended with 80% of shares voted in person or by proxy. All resolutions were passed other than the Remuneration Implementation Report where 43% of shareholders voted against, this resolution requires 75% approval. We will take part in the consultation.