Shoprite interest up as Basson sells stock

By Ann Crotty

8 May 2017

In an unprecedented move, Shoprite/Checkers is being forced to repurchase R1.8bn worth of shares from former CEO Whitey Basson. The move, which will add about R144m to Shoprite's annual interest bill, has been slammed as a misalignment of interests between a company and one of its former top executives.

Image credit: Russel Roberts for *Business Day*

On Friday, Shoprite told shareholders that in terms of a 2003 employment agreement with Basson, the company was obliged to repurchase any shares sold to them by Basson, while he was still in its employ.

The agreement obliged Shoprite to repurchase the shares at the middle market price on the date Basson exercised his put option.

That date was 2 May and the price for each of the 8.7-million Shoprite shares Basson sold was R211. This is the highest level at which the share has traded in five years. It did not remain at this level for long. On Friday the share price ended at R203, which means Basson is already showing a R60m profit on the timing of the transaction.

Basson retired as Shoprite CEO at the end of December after 37 years at the helm, but remained on the board as nonexecutive vice-chairman.

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Analysts expressed surprise at the 2003 agreement, saying they had not heard of it but acknowledged it could have been tucked away in the small print of the reams of information listed companies are required to publish. The company has not responded to a request for details about the disclosure.

It said the 8.7-million shares did not represent Basson's entire shareholding. Shoprite's most recent annual report shows that at end-June 2016 Basson had 9.1-million shares.

Shareholders will vote on the repurchase, which is expected to increase the group's interest charges by about R144m a year.

Under JSE rules, Shoprite is obliged to obtain a fairness opinion on the repurchase because the deal is with a related party and is at a price which is a premium to the weighted average traded price over the 30 business days before the date when Basson exercised his option.

The company said the repurchase price represented a 5.3% premium.

Jean Pierre Verster of Fair Tree Capital said the repurchase was "strange" and it created an uncomfortable conflict of interest between the executive and the company. "R211 isn't extremely expensive, but it is close to full value so it's in [Basson's] interest to sell, but it's not necessarily in Shoprite's interest to buy," Verster said, alluding to the fiduciary duties of directors. Basson's contribution to Shoprite was not at issue, he said.

The sale of the bulk of his shares in one deal may create the impression that Basson now believes Shoprite has stopped growing.

Source: Business Day