Executive Buying and Selling – It's all Relative

Perspectives: January 25th, 2024

We like when executives of listed businesses buy and own shares in the companies they lead, preferably when it is paid for in cash. Conversely, we dislike seeing them sell.

However, this only captures the general case. We have learnt there are exceptions that warrant paying closer attention. The devil is in the details.

Our analytic puzzle to solve for is to assess the level of real 'skin in the game' of an executive.

We feel it should be about *more* than just money to them. I acknowledge that money is an important factor, but it should not be the *only* thing that matters to the executives of the businesses we will look to own for the long run. What else might be important to these special kinds of people? Reputation. Integrity. Respect. Legacy. Stewardship. Commitment. Longevity. Pride. Loyalty. Working with amazing people. Creating and building something important. Inspiration. Doing something for the benefit of future generations. Daring to do something spectacular. Impact. Innovation. Job creation. Business creation. Community. Country. The planet.

There also needs to be some sort of fair symmetric downside participation to mediocrity or outright failure. The captain should go down with their ship. Executives who have real skin in the game [*using our definition*] should stand to gain or lose a lot more than just money.

Here are three case studies to help illustrate the finer details.

At JSE & UK listed **Ninety1** [formerly named Investec Asset Management], despite together already owning over 30%, the founder CEO, Hendrik du Toit, and other key executives have continued buying significant numbers of shares in the business on a regular, almost weekly, basis, paid for in cash.

However, when we look closer we can also see a clear vision and purpose, a committed, highly energized founder that has been there from day 1 for over 30 years now, a strong team culture, innovation, and impact.

At US listed **Meta** [formerly named Facebook], founder CEO Mark Zuckerberg sold US$500mn worth of stock in late 2023. Viewed in absolute terms this is clearly a significant sum of money, and considered in isolation might have led to questions or concern. However, viewed in relative terms to his total personal stake in Meta, this was only 0,5% of his exposure. Here's a fun fact – Meta's share price has increased by 25% since he sold, which means he left US$125mn on the table. Inside a month. So much for timing.

At formerly JSE & German listed **Steinhoff**, the former CEO owned nearly R7bn worth of shares in 2017. This fact, viewed in isolation, may have been one of the reasons why some investors ignored or overlooked the warning signs. This also raises the consideration of potential *omission.* Should I naively assume that this same boat captain – an extremely intelligent man that had totally misled highly qualified, experienced board members, external auditors and professional global investors to the tune of hundreds of billions for over 10 *years*, and then, with impeccable timing, jumped ship right before it sank - had reported *all* of his personal transactions in Steinhoff shares on *all* stock exchanges to the regulatory authorities?

Our work continues...

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