Dischem Insider Transaction Materiality & Fairness Opinions

Perspectives: February 11th, 2024

I admire the work of Rowan Atkinson, because beneath all of the outward silliness he is one of the finest observers and expressionists of the human condition. In one of his earlier comedic sketches [https://www.youtube.com/watch?v=940-D2_k5ew], from the 2 minute mark he brilliantly compares the difference in how a messenger in a medieval court delivers good, indifferent, and bad news.

On January 25th, 2024, **Dischem** announced a 'Related Party Transaction' whereby this JSE listed business acquired an industrial property located in Midrand for R478mn. The property includes a distribution centre and the Dischem head offices, under long-term rental from Dischem. The reason for this transaction being considered a 'related party' is that several members of the founding family and other executive directors of Dischem are also shareholders of the interestingly named 'Directors Adventures Trust' that owns the property.

The rationale for the transaction is stated as '*The ownership of the asset is a long-term strategic objective of the Group…that has a minimal impact on the balance sheet.*'

We are also informed that, in terms of the JSE Listings Requirements, a fairness opinion is to be provided by an independent expert. Said fairness opinion has been made publicly available - for 28 days.

The 6-page fairness opinion kicks off by explaining that the JSE Listings Requirements states the 'fairness' of a transaction is based on **quantitative** issues, and that "*A transaction will typically be considered fair to a company's shareholders if the value received by a company, as a result of a corporate action, is equal to or greater than the value ceded*"

The independent expert then provides a description of their sources of information, procedures, assumptions, and a valuation that is *exactly* equal to the transaction price. It turns out their valuation is essentially based on the opinion of another independent expert, a property valuator. It then concludes the transaction is fair to Dischem Shareholders.

We are *not* Dischem Shareholders, but we choose to pay careful attention to *all* news from companies listed on the JSE – no matter how the messengers deliver it.

I admit - reading and writing about the technicalities of JSE listings requirements is not exactly riveting material. But looks can be deceiving.

1. If the ownership of this property was indeed 'a long-term strategic objective of the Group' and 'a minimal impact on the balance sheet,' then why was this property not acquired onto the Dischem balance sheet in the first place? And why is it being done now, at the exact same time the founding family and executive directors sold an additional R1,5bn worth of shares to the public?
2. Who paid the fees of the independent expert? It is not disclosed, but the logical guess is that it is Dischem.
3. Who paid the fees of the independent expert property valuator? It is not disclosed, but the logical guess is that it is the property holding company.
4. Following to my next point – It looks like Dischem bought a property from its founders and executives, which was valued by an entity hired by the *sellers* (the founders and executives), and on which a fairness opinion was then provided by an entity hired by the *buyers* (Dischem's Board, on behalf of its Shareholders) that is using the same valuation.
5. In the context of the size and scale of Dischem, R478mn is small. However, this is a meaningful sum of money for its recipients – the founders and executive directors – who sit on both sides of the fence.

I am taking direct aim at the way listed companies communicate with a key constituent – their minority shareholders. My view is companies *always* have and make a choice – they can choose to hide behind compliance rules, legalities, and jargon, or they can choose to rise above and communicate in a straight-forward manner that cuts to the essence and builds long-term trust with long-term stakeholders.

Our work continues…

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