PHILIP SHORT
Portfolio Manager

CASE STUDY

NASPERS: INCENTIVISE UNLOCKING THE RUMP

COMPANY DESCRIPTION AND INVESTMENT CASE

Naspers provides video entertainment in sub-Saharan Africa. While the bulk of the company's value resides in its investment in China-based internet giant Tencent, its unlisted (or rump) assets are in global classifieds, online food delivery and online payments.

The majority of the unlisted businesses are not yet profitable, but we believe there is significant value that can be added via this diverse portfolio of assets. Given that we are significant shareholders on behalf of our clients, we need to know that Naspers has the appropriate targets and employee incentives are in place to unlock this value. This motivated us to engage with the company on a number of key issues regarding the remuneration policy.

FIRST ENGAGEMENT (20 OCTOBER 2017)

Old Mutual representatives:
Robert Lewenson (Head of ESG Engagement), Philip Short (Portfolio Manager),

Company representatives:
Chief People Officer and Head of Investor Relations

FOLLOW-UP ENGAGEMENT (2 MAY 2018)

Old Mutual representatives:
Robert Lewenson (Head of ESG Engagement), Philip Short (Portfolio Manager), Peter Linley (Head of Old Mutual Equities)

Company representatives:
Chief People Officer and Head of Investor Relations

CONCERN RAISED
We believe that shareholders can benefit from a better understanding of what is required from Naspers management to unlock the value of the unlisted rump assets (excluding Tencent). As such, we requested more detailed information on key performance indicators and metrics used in determining executives' remuneration – as we did not agree with Naspers's stance at its previous annual general meeting (AGM) that disclosing this information could undermine its competition position.

OUTCOME
Following our discussions, Naspers agreed to provide better disclosure on short-term incentives, including:

- Financial performance would consist of 50% economic criteria and 50% on the business under control of each executive.
- Non-financial performance criteria would include areas specific to the executive's control (for instance, customer growth and increased IT metrics).

We were pleased to note that more than 65% of the criteria listed excluded Tencent.

With regard to long-term incentives, the company was looking at the most appropriate way to incentivise the closure of the valuation gap between the rump and Tencent and sees e-commerce share appreciation rights as the best answer. The remuneration committee did not want the executives to be incentivised for performance in each business unit, but rather the division as a whole. For new acquisitions, performance would be looked at from three years onwards.

It was further agreed that Naspers would consider introducing clawback provisions in the event that executives were paid, but performance wasn't achieved.

In our follow-up engagement, Naspers confirmed that the valuation process and performance metrics for each division would be disclosed in their next Integrated Report. This would include more detailed disclosure on e-commerce share appreciation rights (SARs) versus other business units' schemes and each executive's overall performance criteria. The company further confirmed that clawback provisions were introduced from 1 April 2018. These would be backward looking for a period of two years and relate primarily to financial misreporting of information in terms of pay. It was also agreed that minimum shareholding requirements would be introduced for the CEO equal to 10 times basic salary and would be achieved gradually from share incentive schemes and awards and not from the issuance of shares.

CONCERN RAISED

In calculating the valuation of the rump (used for calculating financial performance), Naspers uses a Deloitte valuation. Our concern was that the methodology and metrics of this calculation were not disclosed.

OUTCOME

While Naspers conceded that the Deloitte valuation was not ideal, they said was the best option available and that Deloitte would review the business plans and discounted cash flow (DCF) analysis. Naspers's auditors, PWC, would cross-check the valuations and a sub-committee of the remuneration committee would then review the report. This committee would have discretion to amend the valuation report if need be. We further requested Naspers to inform shareholders of any trends towards amending the valuation report.

CONCERN RAISED

Perceptions matter and ultimately impact share prices. We believed that the public perceived Naspers's management to be disinterested in engaging with shareholders and the media. We requested that management adopt a more proactive approach to address this perception.

OUTCOME

Naspers was aware of the negative perceptions following its previous AGM and conceded that there was room for change. We proposed using existing online platforms to better communicate with stakeholders. In addition, the company decided to do more regular investor roadshows and follow-up engagements with shareholders.

These were fruitful discussions and we found Naspers receptive to our suggestions, and they actively addressed our concerns. We are further encouraged by the appointment of a new remuneration committee chair, Craig Enenstein, and the inclusion of new members with technological backgrounds and more diverse skill sets. We believe these initiatives will support the unlocking of value within the rump assets and look forward to further engagements with the board on ESG issues.