

# SHOPRITE CHECKERS PROPRIETARY LIMITED (A SUBSIDIARY OF SHOPRITE HOLDINGS): ANNOUNCEMENT OF EVERGREEN B-BBEE EMPLOYEE BENEFIT TRUST

## HIGHLIGHTS

- Shoprite Employee Trust ("**Employee Trust**") established by Shoprite Checkers Proprietary Limited ("**Shoprite Checkers**") on a non-vesting, evergreen basis and funded by Shoprite Checkers primarily on a notional basis ("**Transaction**").
- Aimed at recognising the valued contribution of the employees of Shoprite Holdings and its subsidiaries (collectively, the "**Group**"), as well as ensuring their ongoing participation in the continued growth and success of the Group.
- Transaction structured as a Black Economic Empowerment ("**B-BBEE**") transaction and increases effective B-BBEE ownership in Shoprite Checkers from 13.5% to 19.2%.
- The benefits of the Transaction to accrue in the form of distributions to the Group's employees in the Republic of South Africa ("**RSA**"), (currently c.126 000), with eligibility determined with reference to minimum years of service and position held ("**Beneficiaries**").
- Annual financial cost to Shoprite Holdings' shareholders is anticipated to be c.2.7% of headline earnings (inclusive of RSA and Non-RSA employees, and as further set out in paragraph 5 below).

## 1. INTRODUCTION

Shoprite Holdings recognises the valued contribution of its employees and accordingly, intends implementing a B-BBEE ownership transaction, at Shoprite Checkers, a subsidiary of Shoprite Holdings through which the majority of Shoprite Holdings' South African assets are held, in respect of which the RSA employees of the Group will (subject to the criteria referred to in paragraph 2) be the sole Beneficiaries.

A trust, named Shoprite Employee Trust has been established for purposes of the Transaction. The Employee Trust will subscribe for two separate classes of shares in Shoprite Checkers, namely:

- 4 million class A shares ("**Class A Shares**"); and
  - 36 million class B shares ("**Class B Shares**"),
- (collectively, "**Trust Shares**").

The Transaction will result in the effective B-BBEE shareholding in Shoprite Checkers increasing from 13.5% to 19.2%.

Group employees whose primary place of employment is outside the RSA ("**Non-RSA Employees**"), whilst not Beneficiaries of the Employee Trust, will benefit in accordance with paragraph 4.

## 2. RATIONALE AND PRINCIPLES OF THE TRANSACTION

Shoprite Holdings believes that it is important to recognise the valued role the Group's employees play in terms of its growth and success. Furthermore, the Group is of the view that improving the lives of its employees is necessary, especially in the economic context of the countries in which it operates.

It is with these core values in mind that the benefits of the Transaction will be allocated to the Group's RSA employees. Of the c.126 000 RSA employees, approximately 97% are black and approximately 66% are female, as defined in the B-BBEE Codes of Good Practice.

Permanent Group employees, whose primary place of employment is in the RSA and who have been employed in continuous service in the RSA by a member of the Group for a period of at least 24 calendar months, qualify as eligible employees ("**Eligible Employees**") for purposes of the Transaction. Eligible Employees will exclude those employees who are entitled to receive any long-term incentives or short-term incentives which contain a deferred component as part of their employment.

The Beneficiaries of the Employee Trust are:

- Eligible Employees who qualified as such on the "**Effective Date**", being the first business day after the condition precedent, as described in paragraph 6 ("**Condition Precedent**"), is fulfilled ("**Initial Employee Beneficiaries**"); and
- Eligible Employees who, after the Effective Date, meet the criteria for and qualify as Eligible Employees ("**New Employee Beneficiaries**").

The Transaction has the following key attributes:

- the Employee Trust has been established to hold the 40 million Trust Shares for the benefit of the Beneficiaries of the Employee Trust;
- the Employee Trust is a non-vesting trust and, subject to the terms of the notional vendor funding ("**NVF**") mechanism set out in paragraph 3.2.2 in respect of the Class B Shares, is intended to continue as a shareholder in Shoprite Checkers on a perpetual basis or until the Employee Trust is terminated by agreement between Shoprite Checkers and the Employee Trust;
- the Employee Trust will have 40 million units available for allocation to Eligible Employees ("**Units**");
- a declaration and payment by Shoprite Holdings, after the Effective Date, of a distribution to its ordinary shareholders in respect of each ordinary share held by them (the distribution per ordinary share is hereinafter referred to as the "**Qualifying Dividend**") will result in the Employee Trust being entitled (subject to the compliance with the Companies Act, 71 of 2008) to receive an equivalent gross distribution per Class A Share and Class B Share from Shoprite Checkers;
- the Employee Trust becomes obliged on receipt of such a distribution (or on being informed by Shoprite Checkers that it is ready to make such a distribution, whichever is the earlier) to make a corresponding distribution of an amount equal to the Qualifying Dividend to each of the Beneficiaries in respect of each Unit allocated to them ("**Unitholders**"); and
- Unitholders will therefore be entitled to the Qualifying Dividend per Unit held, aligned to the dividend declared and paid by Shoprite Holdings to its ordinary shareholders. This will ensure that the Transaction is transparent and that Beneficiaries recognise the tangible benefits of the Group continuing to achieve strong operational and financial results.

## 3. SALIENT TERMS OF THE TRANSACTION

### 3.1 Subscription for Trust Shares by the Employee Trust

3.1.1 The Employee Trust and Shoprite Checkers have entered into a:

- 3.1.1.1 subscription agreement, in terms of which Shoprite Checkers, subject to the fulfilment of the Condition Precedent, allots and issues, and the Employee Trust subscribes for, 4 million Class A Shares ("**Class A Subscription Agreement**"); and
- 3.1.1.2 subscription agreement, in terms of which Shoprite Checkers, subject to the fulfilment of the Condition Precedent, allots and issues, and the Employee Trust subscribes for, 36 million Class B Shares ("**Class B Subscription Agreement**").

3.1.2 In terms of the Class A Subscription Agreement and the Class B Subscription Agreement, and pursuant to the implementation of the steps described in paragraph 3.2.1 on the Effective Date, Shoprite Checkers will issue 40 million Trust Shares to the Employee Trust, comprising of 4 million Class A Shares and 36 million Class B Shares.

### 3.2 Facilitation of the Transaction

#### 3.2.1 Sources of facilitation

To enable the Employee Trust to subscribe for the Trust Shares, Shoprite Checkers will provide the following facilitation to the Employee Trust:

- 3.2.1.1 an initial donation of R10 000 to establish the Employee Trust;
- 3.2.1.2 a capital contribution ("**Capital Contribution A**") of R888 million, to enable the Employee Trust to discharge the subscription price for the Class A Shares. The Capital Contribution A is equal to the subscription price payable by the Employee Trust to Shoprite Checkers in respect of the Class A Shares, being a subscription price per Class A Share of R222.05, representing the market value of a Shoprite Holdings ordinary share, calculated with reference to the 3-day volume weighted average price per Shoprite Holdings ordinary share at close of trading on 13 May 2022 ("**3-day VWAP Price**"); and

### 3. SALIENT TERMS OF THE TRANSACTION (continued)

#### 3.2 Facilitation of the Transaction (continued)

##### 3.2.1 Sources of facilitation (continued)

- 3.2.1.3 issue 36 million Class B Shares to the Employee Trust at a nominal subscription price of R0.0000001 per Class B Share, which shares will be subject to a NVF mechanism. The opening balance of the NVF calculation will be R8 billion, based on the 3-day VWAP Price (as defined in 3.2.1.2). Shoprite Checkers will undertake to make the required capital contribution ("Capital Contribution B") to the Employee Trust to enable the Employee Trust to discharge the subscription price for the Class B Shares, being an amount equal to the cash consideration payable in respect of the Class B Shares.

The below table summarises the facilitation of the Trust Shares:

Sources	Rm	%
Capital Contribution A and B from Shoprite Checkers (facilitation)	888 <sup>(1 and 2)</sup>	10.0
NVF opening balance	7 994 <sup>(3)</sup>	90.0
<b>Total</b>	<b>8 882<sup>(4)</sup></b>	<b>100.0</b>
Uses	Rm	%
Subscription for Class A Shares	888 <sup>(1)</sup>	10.0
Subscription for Class B Shares (nominal value plus NVF opening balance)	7 994 <sup>(2 and 3)</sup>	90.0
<b>Total</b>	<b>8 882<sup>(4)</sup></b>	<b>100.0</b>

(1) 3-day VWAP Price (being R222.05 per Shoprite Holdings ordinary share) multiplied by 4 million Class A Shares.

(2) Nominal subscription price of R0.0000001 per Class B Share multiplied by 36 million Class B Shares (R3.60) per paragraph 3.2.1.3.

(3) 3-day VWAP Price (being R222.05 per Shoprite Holdings ordinary share) multiplied by 36 million Class B Shares less the nominal subscription price (R3.60) per paragraph 3.2.1.3.

(4) The initial donation of R10 000 per paragraph 3.2.1.1 has not been reflected in the above table.

##### 3.2.2 NVF terms applicable to the Class B Shares

Item	Description
Mechanism	NVF
Issuer	Shoprite Checkers
Subscriber	Employee Trust
Shares	36 million Class B Shares
NVF offset	Additional Benefit as defined in terms of paragraph 3.4
NVF escalation rate	3% per annum
Final redemption date	Ten years commencing from the Effective Date (" <b>Transaction Term</b> "), terminating on the tenth anniversary of the Effective Date (" <b>Final Redemption Date</b> ")

### 3.3 Employee Trust

Shoprite Checkers (as founder) has established the Employee Trust for the purpose of holding the Trust Shares. The Employee Trust will allocate Units to the Initial Employee Beneficiaries and, thereafter, New Employee Beneficiaries will participate in the Employee Trust through Units being allocated to them once they meet the qualifying criteria.

The Units will be allocated to Eligible Employees based on their respective positions held within the Group. Eligible Employees to which Units will be allocated will become Unitholders.

Each Unitholder will enjoy one vote per Unit held by it at a meeting of Unitholders.

### 3. SALIENT TERMS OF THE TRANSACTION (continued)

#### 3.4 Dividends

The Employee Trust will, subject to compliance with the Companies Act, 71 of 2008, become entitled to receive the following cash distributions from Shoprite Checkers after Shoprite Holdings has declared and paid a Qualifying Dividend:

- the distribution in respect of the Class A Shares held by the Employee Trust will be an amount equal to the number of Class A Shares held by the Employee Trust (being 4 million Class A Shares as at the Effective Date) multiplied by the Qualifying Dividend; and
- the maximum distribution in respect of the Class B Shares held by the Employee Trust will be an amount equal to the number of Class B Shares held by the Employee Trust (being 36 million Class B Shares as at the Effective date) multiplied by the Qualifying Dividend,

(collectively, the aggregate of such distributions being referred to herein as the **“Maximum Dividend Entitlement”**).

The Employee Trust will be required to fund the following amounts from the Maximum Dividend Entitlement:

- 3.4.1 firstly, to make a distribution to the Beneficiaries of an amount equal to the Qualifying Dividend in question per allocated Unit. Each Unitholder will accordingly receive an amount equal to the number of Units held multiplied by the relevant Qualifying Dividend;
- 3.4.2 secondly, to pay the Employee Trust’s expenses; and
- 3.4.3 thirdly, “Approved Investments”, as set out in paragraph 3.6, (collectively, the **“Net Required Cash Distribution”**).

The Employee Trust will have the ability to elect to receive a lesser portion of the distribution in respect of the Class B Shares forming part of the Maximum Dividend Entitlement which the Employee Trust may elect not to receive in cash, i.e. any portion of the Maximum Dividend Entitlement in excess of the Net Required Cash Distribution, will constitute an **“Additional Benefit”** which will reduce the NVF. An Additional Benefit may also arise in circumstances where not all the available 40 million Units are allocated to Unitholders at the particular point in time or where the Employee Trust has received income from Approved Investments.

#### 3.5 Initial Distribution payment

Notwithstanding the Effective Date being a date after the record date for the Shoprite Holdings dividend of 233 cents per ordinary share (**“H1 Dividend”**) declared on 8 March 2022 for the six months ended 2 January 2022 (**“H1 2022 Record Date”**), Shoprite Checkers will treat the H1 Dividend as a Qualifying Dividend made after the Effective Date. The Employee Trust will accordingly be entitled to receive a Net Required Cash Distribution (determined as recorded in paragraph 3.4) in respect thereof (**“Initial Distribution”**). It is anticipated that the Employee Trust will pay a first distribution to Unitholders in respect of such Initial Distribution following the fulfilment of the Condition Precedent. The Unitholders that will be entitled to share in the Initial Distribution will be those Unitholders who qualified as Eligible Employees on 30 April 2022 (**“Record Date”**) of the Initial Distribution. Thereafter, Unitholders will receive distributions shortly after Shoprite Holdings has declared and paid dividends in terms of Shoprite Holdings’ normal dividend cycles.

#### 3.6 Approved Investments

In terms of the trust deed establishing the Employee Trust (**“Employee Trust Deed”**), the trustees shall be entitled to invest surplus cash, after meeting their obligations under paragraphs 3.4.1 and 3.4.2, in Approved Investments. It is anticipated that **“Approved Investments”** will include Shoprite Holdings ordinary shares as well as co-investments alongside the Group through an investment vehicle used to develop small and medium enterprises. It is intended, subject to market conditions and the funds and opportunities available to the Employee Trust during the Transaction Term, that the Employee Trust will, at the end of the Transaction Term, have created sufficient equity value and be invested in assets which will enable it to continue to deliver meaningful distributions to Unitholders after the Transaction Term.

#### 3.7 Redemption

The NVF (as reduced by any applicable Additional Benefits during the Transaction Term) will be extinguished on the Final Redemption Date through a full or partial redemption of the Class B Shares held by the Employee Trust (**“Redemption”**). The number of Class B Shares (**“Final Redemption Shares”**) to be redeemed (by payment of a redemption amount of R0.0000001 per Class B Share to the Employee Trust), will be calculated with reference to the NVF on the Final Redemption Date and the market value of a Shoprite Holdings ordinary share on the Final Redemption Date. All the rights of the Final Redemption Shares will lapse on the Final Redemption Date.

Following the Redemption, the Employee Trust will continue to hold any remaining Trust Shares (**“Remaining Trust Shares”**), together with any other assets held by the Employee Trust, for the benefit of Eligible Employees.

The Employee Trust will, after the Redemption, continue to be entitled to receive distributions in respect of the Remaining Trust Shares and any other dividends or income received from Approved Investments held at such time by the Employee Trust. The Employee Trust will determine which portion of such distribution must be retained for expenses and reserves, with the balance to be distributed to the Units which have been allocated to Beneficiaries at the time on a pro rata basis in accordance with the terms of the Employee Trust Deed.

## 4. NON-RSA EMPLOYEES

In adherence with the ownership principles under the B-BBEE Codes of Good Practice, Shoprite Holdings will implement the Transaction at Shoprite Checkers, its subsidiary and through which the majority of Shoprite Holdings' South African assets are held.

Notwithstanding the fact that the Transaction defines Beneficiaries of the Employee Trust as RSA Employees, Shoprite Holdings believes it is imperative to recognise the valued role all employees play in the Group's success. As such, the Group's Non-RSA Employees will receive an equivalent payment to that of the RSA Employees, which will be paid as a cash bonus payment through payroll, subject to same eligibility criteria and terms as applicable to the Beneficiaries of the Employee Trust.

## 5. FINANCIAL INFORMATION

### 5.1 Financial effects of the Transaction

With reference to the disclosure requirements of Section 9 of the JSE Limited Listings Requirements ("**Listings Requirements**"), the value of net assets ("**NAV**") of Shoprite Checkers as at 4 July 2021, being the date of the last audited annual financial statements, was R16.9 billion.

The audited profit after tax ("**PAT**") attributable to Shoprite Checkers for the period ended 4 July 2021, was R5.8 billion, based on the audited annual financial statements of Shoprite Checkers, prepared in accordance with International Financial Reporting Standards.

### 5.2 Financial impact on the Group

The financial impact of implementing the Transaction for the Group and its shareholders will be determined in accordance with International Accounting Standard 19 Employee Benefits ("**IAS19**"), which prescribes the accounting treatment of employee benefits, except those to which IFRS 2 Share-based Payment applies.

The Group intends consolidating the Employee Trust which holds a 6.85% voting interest in Shoprite Checkers. In the Group's application of IAS19, it will reflect, as an expense, the aggregate amount of the distributions paid to Unitholders (contemplated in paragraph 3.4.1), the Employee Trust's expenses (contemplated in paragraph 3.4.2) and the equivalent benefit paid to Non-RSA Employees (as contemplated in paragraph 4).

By way of an example, the Group anticipates that the aggregate of the Initial Distribution (as referred to in paragraph 3.5), for the 6-month period to 2 January 2022 (which will not include any investment contemplated in paragraph 3.4.3), together with the equivalent payment to Non-RSA Employees, will be an amount of R77 million. This amount is based on estimates of Unitholders and Non-RSA Employees calculated as at the Record Date. The Initial Distribution, together with the equivalent payment to Non-RSA Employees (excluding any potential tax deductions which may be claimed on the payments to Non-RSA Employees), would have represented a reduction of the Group's headline earnings from continuing operations for the 6-month period to 2 January 2022 of 2.7%.

The above example sets out the unaudited financial effects of the Transaction (including the impact of the benefits to Non-RSA Employees) on, *inter alia*, the Group's headline earnings from continuing operations based on the most recent published interim results of the Group for the 6-month period ended 2 January 2022. For the avoidance of doubt, the consolidation of the Employee Trust and application of IAS19 does not have an impact on the ordinary shares in issue in Shoprite Holdings.

The unaudited, *pro forma* financial information contained herein is the responsibility of the directors of Shoprite Holdings and was prepared for illustrative purposes only and may not, because of its nature, fairly present Shoprite Holdings' financial position, changes in equity and results of its operations or cash flows for the period then ended. It does not purport to be indicative of what the financial results would have been, had the Transaction been implemented on a different date.

## 6. CONDITION PRECEDENT

The Class A Subscription Agreement, Class B Subscription Agreement and implementation of the Transaction are subject to the receipt of confirmation from the Companies and Intellectual Property Commission ("**CIPC**") that the amendments to the memorandum of incorporation of Shoprite Checkers submitted to the CIPC have been accepted by the CIPC.

## 7. EFFECTIVE DATE

The Effective Date of the Transaction will be the first business day after the Condition Precedent referred to in paragraph 6 has been fulfilled.

## 8. CLASSIFICATION OF THE TRANSACTION

The Transaction will constitute a category 2 transaction in terms of Listings Requirements and no related parties are involved in the Transaction.

## 9. INVESTOR CALL – 15:00 SAST TODAY

Shoprite Holdings will host a webcast conference call for shareholders and investors today, 18 May 2022, at 15:00 SAST to discuss the Transaction. The webcast call can be accessed via the following registration link: <https://www.corpcam.com/shoprite18052022> and the presentation slides that accompany the conference call will be available at the following link: <https://www.shopriteholdings.co.za/content/dam/SENS/shp-may2022.pdf>.

Brackenfell  
18 May 2022

### **Financial adviser and transaction sponsor**

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