

5 August 2021

# Questions submitted for the virtual extraordinary general meeting



prosus

## 1. INTRODUCTION

In accordance with the notice of the extraordinary general meeting, from the date of publication of the notice of the virtual extraordinary general meeting until Tuesday, 6 July 2021, at 14:00 CET, shareholders could submit written questions about the items on the agenda. We set out below the questions, and responses to the questions. For these questions and for general information please refer to the company by email on [investorrelations@prosus.com](mailto:investorrelations@prosus.com) or by phone: +31 (20) 299 9777.

## 2. Questions from the VEB

### 2.1. **The proposed transaction will reduce the weight of Naspers on the Johannesburg Stock Exchange (JSE). However, it is not directly clear why and how this will help decrease the discount to net asset value (NAV) of the separately listed Prosus-shares in a sustainable way:**

#### 2.1.1. **What mechanism will trigger not only the reduction of the discount of Naspers shares on the JSE but also simultaneously the discount of Prosus-shares listed in Amsterdam?**

One of the guiding principles in structuring the transaction was to ensure the outcome is in the interests of Prosus, Naspers and their respective shareholders. The board believes that the proposed transaction achieves this: it is efficient, enhances optionality to unlock value now and in the future, and results in the highest possible Prosus free float while minimising execution risk. It significantly improves the structure and investment profile of Prosus.

The principal immediate source of value creation for the voluntary share exchange is the exchange of 'high discount to NAV' shares (i.e. Naspers N ordinary shares) in return for 'lower discount to NAV' shares (i.e. Prosus ordinary shares N). This value is shared in an objective way between Prosus and Naspers shareholders based on their current ownership of the underlying NAV – and is NAV per share accretive to Prosus.

The transaction is expected to:

- More than double the size of the Prosus free float's ownership of the underlying economics of the Prosus portfolio to 59.7%. Additionally, Prosus's free float grows to c. US\$100bn, making it a true consumer internet bellwether and European tech champion.
- Result in a larger and more liquid Prosus that will benefit those exchanging their shares over the long term and improve Prosus's discount, which will also accrue to Naspers as Prosus's largest shareholder.
- Meaningfully reduce Naspers's weight on the JSE. This is important because there is a clear correlation between Naspers's increasing size on the JSE and the growth in the discount: a rising discount at the Naspers level increases the discount at the Prosus level as both stocks have traded in tandem since Prosus listed in 2019.
- Result in additional positive index flows into the group, which will improve the trading dynamic of both Prosus and Naspers.
- There is also a US\$5bn share repurchase to support Prosus trading after the exchange offer completes.

A further note on the weight of Naspers on the JSE given its effect on Prosus: There is a direct relationship between Naspers's increasing size on the JSE and a steady widening of the holding company discount. Nearly half of Naspers's shareholder base is South African and they are 60% underweight on Naspers solely because they are not able to own the 23% or so that Naspers makes up of the total market capitalisation of the JSE. Naspers has had another year of meaningful outperformance versus the broader JSE. This increases its size on the JSE and drives further widening of the discount, which increases the discount at the Prosus level. Taking no action will mean this dynamic continues indefinitely and the discount will get considerably wider. Reducing Naspers's size on the JSE ensures South African investors will hold something closer to an equal weight position alleviating the risk of a continued widening of the discount.

2.1.2. **What relevant data and analysis can the Board share to support that the discount of Prosus is directly related to the weighting of Naspers in the FTSE/JSE SWIX-index?**

As set out above, there is a clear correlation between Naspers's increasing size on the JSE and the growth in the discount to Naspers's NAV. A rising discount at the Naspers level increases the discount at the Prosus level as both stocks have traded in tandem since Prosus listed in 2019.

If the voluntary share exchange is successfully completed, the Naspers weighting in the JSE SWIX will reduce to between 11% to 13%, which is a much better position to be in, as South African funds can hold their full share of Naspers.

For Prosus on Euronext Amsterdam (AEX), where its weight is today just 1.1% of the STOXX50 Index, there is significant headroom for continued growth. If the voluntary share exchange is successfully completed, Prosus is expected to double in size rising to become a top 20 EuroStoxx company, underpinned by a portfolio of some of the fastest growing internet assets globally – essentially becoming a "must-buy" for large European asset managers. Prosus is expected to increase to 2.4% of the STOXX50. That remains significantly under prudential limits. A larger and more liquid Prosus will benefit those exchanging their Naspers shares over the long term, and should improve Prosus's discount to NAV.

2.1.3. **To what degree should Prosus shareholders be worried that the complexity introduced by the new cross-holding structure might further increase the discount over the longer term?**

Although the problem we are trying to solve is quite complex, the structure of the company after the proposed transaction will be straightforward. The Prosus free float will own approximately 60% of the underlying NAV and Prosus on the AEX will play the most significant role on how the assets are priced. This is important as the AEX does not have the same size challenges of the JSE in South Africa. This is positive for both Prosus and Naspers shareholders.

The see-through economic interests are clear and are split between the Prosus and Naspers free float shareholders, 59.7% Prosus and 40.3% Naspers. Distribution flows are covered by the cross-holding arrangement.

**2.1.4. The discount of Prosus to Tencent is the most persistent issue. What further actions is the Board willing and able to undertake to reduce this discount?**

The voluntary share exchange offer is intended specifically to address the problem that Naspers has grown too large for the JSE, which directly and negatively impacts Prosus. Naspers needs to be right sized for the JSE, while increasing the liquidity of Prosus on Euronext Amsterdam.

After this step is complete, the board will consider other actions that may be possible to improve returns and to address the discounts at Prosus and Naspers. The board cannot speculate on what may or may not be done in future, and the proposed transaction maintains flexibility.

The board expects that continued improvements in the group's operations, and disciplined capital allocation that drive future growth at the good returns we have delivered so far, will create significant value for shareholders in the future.

Tencent is core to the group's strategy, providing the group with excellent exposure to the world's largest internet market. Shareholders have benefitted hugely as a result of the group's investment in Tencent. The board believes Tencent has tremendous potential for growth.

**2.2. The discount to NAV of Prosus shares listed in Amsterdam amounts to close to 40 percent. The Prosus discount is also much higher than the total value of the e-commerce portfolio:**

**2.2.1. Do the non-executive directors think the Prosus remuneration policy - considering its current short- and long-term incentives (STI and LTI) and corresponding performance criteria - is well suited to accelerate the reduction of the discount?**

The board remains committed, and management is incentivised, to continue to take action to address the discount to NAV. There are many reasons for the discount, and the board incentivises management to reduce the discount by focusing on the factors within management's control.

Within the annual Short-Term Incentive plan, the executive directors are each incentivised to take structural action to reduce the holding company discount.

The Longer-Term Incentives also incentivise management to create shareholder value over the long term and to address the discount. Through Performance Share Units (PSUs) and eCommerce Share Appreciation Rights, management is incentivised to bring the ecommerce businesses, excluding Tencent, to scale and profitability, an extremely important element in closing the discount to NAV. Share Options (SO) directly expose management to the discount experienced by shareholders, and incentivise prudent capital allocation decisions across the group.

**2.2.2. Shouldn't the remuneration policy be more explicitly tilted towards the reduction of the discount of Prosus shares, given that the discount is much higher than total value of the e-commerce portfolio?**

Please see above for an explanation of how short and longer-term incentives are designed to incentivise management to close the discount.

Over time, settlement of PSU and SO awards will gradually be re-balanced between Prosus and Naspers shares, aligned with the free-float ownership in

Prosus and Naspers (subject to obtaining requisite approval to amend the remuneration policy). Accordingly, the grant of the FY22 Performance Share Unit and Share Option awards will be partly settled in Naspers shares (72.5%) and partly in Prosus shares (27.5%).

2.2.3. **To what extent might there be consequences for the position of executive board members if the proposed transaction fails to reduce the discount or even leads to an increase in the discount due to the complexity?**

The past three years have been transformational for the group in many respects:

- in early 2019, Naspers unbundled MultiChoice Group, its video entertainment business
- later that year, the internet assets were listed as Prosus on Euronext Amsterdam
- last year, a share purchase of US\$5 billion to acquire Naspers and Prosus shares was announced, which has been completed.

The board is immensely proud of the group's achievements during the past year. Our people managed the pandemic, delivered powerful revenue growth, and lifted profitability – the full year results to 31 March 2021 are the group's best financial performance on record. At the same time, the group is building fast-growing and valuable consumer internet businesses at global scale.

The company is well capitalised with an exciting pipeline of M&A to drive further growth and deliver the long-term strategy. The 33.4% IRR on the investment of the proceeds from the initial Tencent trim three years ago shows the strong potential of the group's businesses and platforms. The latest valuation of the ecommerce portfolio is US\$39 billion – double what it was just a year ago.

The group is on a path that is expected to generate significant value for shareholders over time. However, a side effect of the fast growth is that Naspers's size on the Johannesburg Stock Exchange has become a real problem, which will worsen rapidly as the group continues to grow (and a rising discount at the Naspers level increases the discount at the Prosus level as both stocks have traded in tandem since Prosus listed in 2019). The main objective of the voluntary exchange offer is to reduce Naspers's outsize position on the JSE – another step in the journey to reduce the discount to NAV for both Prosus and Naspers over time.

The board remains committed, and management is incentivised, to continue to take action to address the discount to NAV. There are many reasons for the discount, and the board incentivises management to reduce the discount by focusing on the factors within management's control.

### 3. Questions raised at the closing of the meeting

**3.1. European Investors, the VEB, appreciates Prosus' efforts to look for ways to tackle the discount to NAV. We feel however that the proposed transaction is complex, and not entirely convincing. Nevertheless, we understand the urgency and hope the proposed transaction will lower the discount in a sustainable matter. At the same time, we believe Prosus' governance structure is complex and warrants continuous monitoring by the Board, and future additional measures in this respect maybe necessary.**

**3.1.1. What is the reason Naspers and Prosus trade in tandem, as Prosus separately holds and trades against the underlying technology assets?**

While both companies are separate and distinct entities, both are owners of the underlying assets and NAV and as such it is reasonable to expect both stocks would trade in tandem, with the movements in share prices and discounts to NAV mirroring each other, and indeed this is proven out empirically when analysing the daily trading activity.

**3.1.2. Why did Prosus choose to hold a separate EGM for the proposed transaction instead of putting it to the vote during the AGM on 24 August 2021?**

We know that our investors are eager to see us take action to address the issue of Naspers being too big on the JSE and the resulting effects of that on the discounts to NAV of both Prosus and Naspers.

When the Board decided to move forward with proposing this transaction to shareholders it wanted to move as prudently but as expeditiously as possible hence the EGM was called in advance of the AGM, which takes place on 24 August 2021.