

The copyright of this thesis vests in the author. No quotation from it or information derived from it is to be published without full acknowledgement of the source. The thesis is to be used for private study or non-commercial research purposes only.

Published by the University of Cape Town (UCT) in terms of the non-exclusive license granted to UCT by the author.

**SHARE REPURCHASES IN SOUTH AFRICA:  
REASONS and RETURNS**

by

**A M SIDDLE**

Submitted to the  
**University of Cape Town**  
in Partial Fulfilment  
of the Requirements  
of the  
Degree of  
**Master of Commerce**  
in Financial Management

## Synopsis

Share repurchases have long been permitted in the United States of America, but it is only relatively recently that they have become a frequently-used means of returning funds to shareholders in that country. In other countries, it was also only relatively recently that share repurchases were even permitted, and in South Africa, repurchases have been permitted only since 1999, when the Companies Act was amended to allow for them.

Repurchases in South Africa are fairly closely regulated, not only by statute, but also, in the case of listed shares, by regulations contained in the Listing Requirements of the Johannesburg Stock Exchange. In essence, the regulations, read with the legislation, allow for three types of repurchase, namely, a specific repurchase incorporating a *pro rata* offer; a specific purchase incorporating a specific offer, and a general repurchase. Specific repurchases have more demanding requirements than general repurchases as far as public announcements are concerned, and as such, they provide greater scope for analysis in the context of the “signalling hypothesis,” and for that reason, the focus of this study is on specific repurchases.

Studies in the USA and elsewhere have shown that repurchases may be carried out for any of a number of reasons. Most studies in the USA have also shown that repurchases are associated with significant positive abnormal returns on the share prices; the increase in prices is usually attributed to the signalling hypothesis, which holds that managers use repurchases as a means of signalling to the market that they believe that the shares are underpriced.

The objectives of the present study are twofold:

- To identify the reasons for South African companies carrying out repurchases; and
- To determine whether such repurchases create shareholder value

For purposes of both objectives, repurchases complying with certain criteria were selected and analysed. It was found that the stated reasons for specific repurchases most frequently related to the enhancement of value. In order to determine whether repurchases did in fact enhance value, the Cumulative Abnormal Return technique was applied. It was found that specific repurchases are followed by an immediate, obvious and sustained increase in Cumulative *Average* Abnormal Returns. On the other hand, individual repurchases which resulted in short-term positive Cumulative Abnormal Returns were in the majority; but in the long term, they were in the minority. There is only tentative evidence to suggest that the size of the repurchase, the type of repurchase, the size of the directors' interest, price and reasons for repurchases have an influence on the returns. It is concluded that the outcome of a specific repurchase may well be unpredictable.

## Declaration

I hereby declare that the work contained in this dissertation is my own original work and has not previously been submitted, either in its entirety or in part, to any university in fulfilment of the requirements for any degree.

Signed by candidate

AM Siddle

21 OCTOBER 2006

Date

## Acknowledgements

I wish to thank the following persons:

- Dr Richard Chivaka of the Faculty of Commerce, University of Cape Town, for his patience and advice in supervising this dissertation; and
- Lisa Maddison for kindly and speedily proof-reading the text.

AM Siddle

University of Cape Town

## Contents

	<b>Page</b>
Synopsis	i
Declaration	iii
Acknowledgements	iv
Table of Contents	v
<b>CHAPTER 1</b>	
<b>Introduction</b>	1
1.1 Placing Repurchases in Context	1
1.2 A Brief History of Repurchases	1
1.3 Justification for this Research	4
1.4 Research Questions and Objectives	5
1.5 Organisation of Study	6
<b>CHAPTER 2</b>	
<b>The Regulatory Environment Governing Share Repurchases</b>	7
2.1 Introduction	7
2.2 The Regulatory Environment in the USA	7

2.3 The Regulatory Environment in South Africa	9
2.4 Statutory Provisions	9
2.5 The JSE Listing Requirements	13
2.6 Specific Repurchases vs. General Repurchases	20
2.7 Summary	21
<b>CHAPTER 3</b>	
<b>Literature Review</b>	24
3.1 Introduction	24
3.2 Share Repurchases Defined	24
3.3 Types of Repurchase	27
3.4 Structural Consequences	30
3.5 Theories and Reasons Explaining Share Repurchases	32
3.6 South African Literature	46
3.7 Summary	47
<b>CHAPTER 4</b>	
<b>The Effect of Repurchases on Shareholder Value: Theory</b>	49
4.1 Introduction	49
4.2 An Examination of Various Studies	50

4.3 Criticisms of the Signalling Hypothesis	56
4.4 Summary and Conclusions	59
<b>CHAPTER 5</b>	
<b>Methodology</b>	61
5.1 Introduction	61
5.2 Identifying Reasons for Repurchases	63
5.3 Presentation of Research on Reasons	63
5.4 Determining whether Repurchases Enhance Shareholder Value	64
5.5 Presentation of Research on Shareholder Value	70
5.6 Limitations of Research	72
<b>CHAPTER 6</b>	
<b>Research Results</b>	74
6.1 Introduction	74
6.2 Reasons for Repurchases	74
6.3 The Creation of Shareholder Value	79
6.4 Analysis of Results	91
6.5 Summary of Results	94

**CHAPTER 7**

<b>Conclusions and Recommendations</b>	95
7.1 Purpose and Scope of and Approach to Study	95
7.2 Principal Answers	95
7.3 Insights Provided by Research	96
7.4 Areas for Further Research	97
References	98
Appendix A: Companies	101
Appendix B: Reasons for Repurchases	103
Appendix C: Summaries of Repurchases	109
Appendix D1: CARs from commencement of observation period to announcement date	112
Appendix D2: CARs from announcement date	115
Appendix E: Graphs	118
Appendix F: Change in Share Prices	135

## Chapter 1

### Introduction

#### **1.1 Placing Repurchases in Context**

Since 1999, when share repurchases were permitted for the first time in South Africa, considerable use has been made in this country of the repurchase mechanism as a means of achieving various corporate objectives, the principal objective being, as shall be shown, “to increase shareholder value.” Although repurchases have become commonplace in South Africa, it remains useful and appropriate to place them in context in order to achieve a comprehensive understanding of the repurchase phenomenon, its development and its importance. To that end, the next section provides a brief historical background of repurchases, both in South Africa and elsewhere.

#### **1.2 A Brief History of Repurchases**

Share repurchases, or stock buy-backs, as they are also commonly known, have been recognised and permitted in the United States of America (“USA”) for many years. Statutes of the various states fairly uniformly vest the power to repurchase shares in corporations (Brudney and Bratton, 1993) and the courts of the USA have taken the approach that even in the absence of a statute, companies have the power to repurchase their shares, unless specifically prohibited (Trichardt *et al*, 1989; Blackman *et al*, 2002).

Other jurisdictions (including South Africa) have, however, been slower to permit share repurchases.<sup>1</sup> Largely influenced by English company law, and in particular, by the

---

<sup>1</sup> By 1980, the USA was “one of the few countries in the world which allow(ed) firms to make tender offers for their own shares at a price above the market price. The rather negative attitude of legislators of other countries (was) generally motivated by a stated desire to protect non-insider investors. The argument (was) that insiders could manipulate prices by giving false ‘signals’ to the market or they could expropriate bondholders by reducing the size of their claims on the assets of the firm” (Vermaelen, 1981, p 139). Compare this reason with the rationale given below.

judgment of the House of Lords in *Trevor v Whitworth*,<sup>2</sup> they applied the rule that a company could not, in general terms, repurchase its own shares. The rationale for this prohibition was threefold:

- first, and most importantly, it protected the company's creditors by preventing a reduction of the company's capital (the so-called "capital maintenance rule") (Blackman *et al*, 2002; Ferran, 1999; *Trevor v Whitworth*);
- second, it protected the company's shareholders by preventing the company from trafficking in its own shares (Blackman *et al*, 2002; Ferran, 1999; *Trevor v Whitworth*);
- third, it prevented unconstitutional conduct by management who might otherwise use the power to repurchase shares to rid themselves of troublesome or disaffected shareholders (Ferran, 1999).

In time, however, and largely influenced by practice in the USA, legislation was introduced in Canada both at provincial<sup>3</sup> and at national<sup>4</sup> level to permit repurchases. In the United Kingdom, the prohibition was effectively removed in 1981.<sup>5</sup> Australia<sup>6</sup> and New Zealand<sup>7</sup> followed suit in due course.

The removal of the prohibition had been under consideration in South Africa since at least 1985, when the Standing Advisory Committee on Company Law<sup>8</sup> raised the question of whether the capital maintenance rule should be abolished.<sup>9</sup> The Committee began active consideration of the issue in the late 1980's and finally, in 1999, the Companies Amendment Act no. 37 of 1999 was passed. This Amendment Act effectively did away with the prohibition on repurchases by repealing the old sections 83 and 84 of the Companies Act, 1973 ("the Act"), and substituting sections 85 to 90. The

---

<sup>2</sup> (1887) 12 App Cas 409 ( HL)

<sup>3</sup> For example, Ontario's Business Corporations Act 1970 (Ont) s 39

<sup>4</sup> Canada Business Corporations Act 1985 ss 33 – 36

<sup>5</sup> Companies Act, 1981; Companies Act 1985

<sup>6</sup> Australian Corporations Law

<sup>7</sup> New Zealand Companies Act, 1993

<sup>8</sup> Established in terms of the Companies Act, 1973

<sup>9</sup> Policy Statement of the Standing Advisory Committee on Company Law, 8 February 1985

phenomenon of generally permitted share repurchases is therefore relatively new in South Africa, having been in existence for only some six years at the time of writing.<sup>10</sup>

Despite the practice of share repurchases having been long permitted in the USA, it is only relatively recently – in the early 1980's – that US corporations began adopting share repurchase programmes in large numbers (Grullon and Ikenberry, 2000).<sup>11</sup> It has been suggested that one reason for the surge in repurchases is that in 1982, for the first time, regulatory certainty on share repurchases was achieved when the Securities Exchange Commission (“SEC”) adopted Rule 10b-18 (Grullon and Ikenberry, 2000). This rule created a “safe harbour” measure whereby legal protection was provided against accusations of price manipulation on condition that certain trading limits were followed.

The introduction of this rule appears to have coincided with oil companies running out of investment opportunities, thereby prompting them to repurchase enormous quantities of stock (Brudney and Bratton, 1993). Repurchasing activity was not limited to oil companies, however, and large companies from other sectors followed suit. In addition, at least prior to 1989, a large part of repurchase activity could be attributed to defensive action against another 1980's phenomenon, the hostile takeover bid (Brudney and Bratton, 1993).

The repurchase phenomenon spread across the world during the 1990's, by which time other jurisdictions referred to above had enabling legislation in place (Grullon and Ikenberry, 2000). During this period, other countries outside the sphere of influence of

---

<sup>10</sup> Prior to the amendment, reductions in capital by South African companies were possible, but only in very clearly defined circumstances. The pre-amendment s 83 of the Companies Act permitted reductions in capital if, amongst other requirements, the company had no creditors or if all of its creditors consented to the reduction. Alternatively, a company could reduce its capital pursuant to confirmation by the Court.

<sup>11</sup> It is interesting to note that there was in fact an earlier upsurge in repurchasing activity in the USA. In 1971, the US Government imposed a “voluntary” 4% limit on dividend increases. It was found that during the period of controls (August 1971 to June 1974) there was a dramatic increase in repurchasing activity (Vermaelen, 1981); premiums also increased from an average of 11.61% to 26.41% (Vermaelen, 1981). Particularly intriguing about this phenomenon is the fact that although controls were imposed in 1971, it was not until 1973 that the real boom in activity emerged: this coincided with the lifting of mandatory wage controls which included the prohibition on exercising stock options. Vermaelen suggests that one explanation for this is that by restricting executive compensation, the government removed the incentive for managers to act in the best interests of non-insider shareholders.

English law, such as Germany, Taiwan and Japan, adopted provisions for the first time which allowed firms to repurchase their own shares (Grullon and Ikenberry, 2000).

Share repurchase programmes have become an important payout method for many US firms, and it is estimated that between 1984 and 2000, US corporations spent approximately 26% of their total annual earnings on repurchases (Grullon and Michaely, 2004). In 1999 and 2000, for the first time in history, industrial corporations spent more money on share repurchases than they did on dividends (Grullon and Michaely, 2004).

### **1.3 Justification for this Research**

Given the popularity in the USA of repurchasing shares as a method of making payments to shareholders, it is not surprising that the bulk of literature on this phenomenon emanates from that country. There is a large and growing body of research on the reasons for repurchases in the USA and on the effect thereof on shareholder wealth, details of which are discussed in later chapters.

South Africa, by contrast, appears to have produced very little in the way of academic writing on the subject. This is not to suggest that repurchases have little role to play in South Africa; on the contrary, although repurchases in South Africa are nowhere near the levels experienced in the USA, they have become sufficiently entrenched in the corporate landscape<sup>12</sup> to merit analysis of the phenomenon in the South African context.

It would be very easy to assume that the results of US research hold good for South Africa; but it must be remembered that relative length of experience of the repurchase phenomenon, local conditions and especially the local regulatory environment in South Africa all differ from those in the USA, and for that reason, a separate study of repurchases from the South African perspective is not only desirable but also necessary.

---

<sup>12</sup> According to Ernst & Young's *Mergers and Acquisitions, 2002*, 79, 110 and 123 repurchases were carried out by South African companies in 2000, 2001 and 2002 respectively.

#### **1.4 Research Questions and Objectives**

There are two primary focuses of interest in a study of this nature. The first relates to the reasons for carrying out repurchases. Assuming that managers of companies are rational beings whose primary function is to serve the interest of shareholders, they must have sound reasons for any act which they perform as stewards of their companies, including the act of repurchasing shares. The second relates to the consequences of their acts. Having regard to the reasons for the repurchase, do their acts in fact benefit the shareholders? This research will therefore consider the following questions:

- *Why do firms in South Africa repurchase shares? and*
- *Do share repurchases create shareholder value?*

It follows, therefore, that the objectives of researching this topic are twofold:

- First, to identify the reasons for South African companies carrying out repurchases;
- Second, to determine whether such repurchases create shareholder value, by reference to the returns of the shares concerned.

In order to achieve these objectives, it was necessary to follow a comprehensive approach to examining repurchases, so as to provide a thorough understanding of the phenomenon. This study was, therefore, multidisciplinary in character, drawing as it did on various sources of learning, including law, quantitative analysis, economics of financial markets, corporate governance and finance theory.

Given the depth of experience on the topic in the USA, considerable attention was paid to research carried out in that country. Where appropriate and available, commentary from the United Kingdom was also examined. This study involved a close examination of the theory and empirical studies relating to repurchases carried out in those countries. The challenge was to apply the benefit of that experience to the South African situation.

In order to provide a thorough understanding of the context for repurchases in South Africa, it was necessary to consider in some detail the regulatory environment relating to repurchases in this country. A theoretical and regulatory framework having thus been established, attention was turned to an examination of empirical evidence relating to repurchases, in order to achieve the objectives referred to above.

### **1.5 Organisation of Study**

The remainder of this study is organised in the following chapters:

- Chapter 2 *The Regulatory Environment Governing Share Repurchases*: This study is based to a large extent on the premise that in order to achieve an understanding of the scope, import and consequences of repurchases, it is necessary to understand the regulatory environment within which repurchases are carried out. This chapter examines the regulatory environment in South Africa and attempts to place repurchases within the regulatory context;
- Chapter 3 *Literature Review*: This chapter provides a review of the body of literature which was consulted for purposes of this research;
- Chapter 4 *The Effect of Repurchases on Shareholder Value: Theory*: This chapter examines the theory behind the effects of repurchases on shareholder wealth;
- Chapter 5 *Methodology*: Whereas the preceding chapters are concerned mainly with issues relating to the theory and context of repurchases, this chapter describes the methodology applied to the collection and analysis of empirical evidence;
- Chapter 6 *Research Results*: This chapter, employing the methodology described in Chapter 5, examines the actual reasons for repurchases in South Africa, and examines the actual effect of repurchases in South Africa on shareholder wealth;
- Chapter 7 *Conclusions and Recommendations*.

## Chapter 2

### The Regulatory Environment Governing Share Repurchases

#### 2.1 Introduction

As has been pointed out, most studies relating to share repurchases have been carried out in the USA. The danger of placing reliance on those studies when trying to comprehend the repurchase phenomenon in South Africa is that the regulatory environment – which will inevitably influence the nature and extent of repurchase activity – may well be, and in fact is, very different in the two countries.

A clear understanding of the regulatory environment in South Africa is essential in order to achieve an understanding of the scope, import and consequences of repurchases. Share repurchases neither exist nor are carried out in a vacuum; rather (certainly in South Africa) the notion of repurchases exists by virtue of statute and their application is governed by statute and delegated regulation. In addition, as will be shown later, the nature of the regulatory environment has to some extent shaped the methodology employed in the present research. The purpose of this chapter is to consider briefly the regulatory environment in the USA, so that the studies referred to above can be placed in context, and then to consider in somewhat greater detail the regulatory environment in South Africa, in order to achieve the ends stated at the beginning of this paragraph.

#### 2.2 The Regulatory Environment in the USA

It was mentioned earlier that although repurchasing has long been permitted in the USA, it is only relatively recently that repurchase activity has become commonplace and sustained.<sup>1</sup> It was suggested that the increase in this activity is due, at least in part, to the introduction in 1982 of the first rule that provides any legal structure and protection, as

---

<sup>1</sup> See Chapter 1.

far as alleged manipulation is concerned, to the buy-back process in the USA.<sup>2</sup> This was in the form of SEC Rule 10b-18.<sup>3</sup> It seems that this rule sufficiently reduced uncertainty over potential litigation to allow the surge in repurchase activity in the 1980's and 1990's.

The critical point about Rule 10b-18 is that it provides no limitations as to what companies can and cannot do; rather, the rule provides a “safe harbour” that gives legal protection to companies against accusations of price manipulation, provided that four trading limits are followed. A company will be deemed not to have violated the anti-manipulative provisions of other SEC rules if its transactions on any given day:

- are made only through one broker or dealer;
- are not executed at the opening or during the last half hour of trading;
- are not done at a price exceeding the highest current independent bid price or the last independent sale price, whichever is the higher; and
- if the total repurchase volume does not exceed 25% of average daily trading volume calculated over the preceding four weeks.<sup>4</sup>

The first limit is intended to place some responsibility on the broker or dealer for following the rules and also limits the firm from appearing to hide its trades. The limit of one broker or dealer is applied on a day-to-day basis, not for the entire programme. The second provision limits the firm from affecting prices at either opening or close of trading, two times at which the firm's last traded price can be an important benchmark value for establishing exchange ratios in takeovers or determining payouts from compensation reward plans. The third provision serves as an “up-tick” limit and keeps the company from forcing its share price to trade at a higher price tick. The last provision aims to limit the volume of trade in the share (Grullon and Ikenberry, 2000).

Inasmuch as Rule 10b-18 is a “safe harbour” rule, it imposes no mandatory limit on a firm's ability to trade, but it does provide protection against litigation for manipulation if the firm remains within the trading limits. It seems that firms do not always obey the

---

<sup>2</sup> See Chapter 1.

<sup>3</sup> This rule was amended in 2003.

<sup>4</sup> See Brudney and Bratton (1993), pp 640 – 650.

limitations imposed by the rule.<sup>5</sup> Nonetheless, it appears that companies are at least sensitive to the spirit of the rule (Grullon and Ikenberry, 2000).

Apart from Rule 10b-18, “there is a surprising lack of regulatory structure” (Grullon and Ikenberry, 2000, p 48) in the USA, other than compulsory initial disclosures on the market.

### **2.3 The Regulatory Environment in South Africa**

In South Africa, the repurchase process is much more closely regulated than in the USA. It is not proposed that this study should deal exhaustively with the detail of the relevant legislation and regulations in South Africa, but rather that an overview be provided in order to allow an understanding of the framework and the limitations within which repurchases may be carried out. The emphasis will be on the regulatory environment as it relates to share repurchases in listed companies.

### **2.4 Statutory Provisions**

The relevant statutory provisions are contained in sections 85 to 89 of the Companies Act, 1973, as amended.<sup>6</sup> The principal features of these provisions are discussed below.

The principal enabling provision is section 85(1), which provides that a company may by special resolution approve the acquisition of shares issued by it, if authorised thereto by its articles. Apart from the requirement that the articles of the company permit the repurchase, the key requirement is that the authorisation be by way of special resolution. This requirement is no doubt aimed at protecting the interests of the shareholders, by requiring their approval rather than merely that of the directors. Whether this aim is in fact achieved is open to question. The Act does not have any requirement specific to repurchases whereby any information regarding a repurchase must be conveyed to shareholders, although it does require that notice of any special resolution must state the

---

<sup>5</sup> Grullon and Ikenberry refer in p47 to a study conducted on 64 repurchase programmes which were carried out in 1993 and 1994; it found that less than 10% of programmes followed to the letter all of the requirements of Rule 10b-18.

<sup>6</sup> By the Companies Amendment Act, no 37 of 1999

“terms and effect of the resolution and the reasons for it.”<sup>7</sup> Whether that requirement is in itself sufficient is open to question, and if it is not sufficient, then it is of doubtful value, for in order for it to be effective, shareholder consent must be informed (Trichardt *et al*, 1989).<sup>8</sup> In any event, it has been argued that

“as a more fundamental matter, there is reason to doubt whether shareholder approval makes more than a nominal contribution to corporate democracy. In the case of private companies, where management is either identical with or generally responsive to shareholder concerns, such a requirement is superfluous. In the case of publicly held companies, most shareholders are concerned only with dividend policy and share price performance. This apathy and the high cost of organising a proxy contest enable management, with the support of 15-20% of the shareholders, to control the outcome of even those decisions requiring a supermajority approval.<sup>9</sup> In short, the various legislative approaches to legal authorisation for repurchases raise matters of high principle but little real substance.” (Trichardt *et al*, 1989, p105)

Section 85(2) provides that the approval may be a general approval or a specific approval for a particular transaction. The Act does not define the nature and consequences of a general approval as opposed to a specific approval, save to state in section 85 (3) that a general approval is valid only until the next annual general meeting or if it is revoked earlier by any general meeting.<sup>10</sup>

Section 85(4) provides that a company may not make any payment to repurchase any share if there are reasonable grounds for believing that the company is or would after the payment be unable to pay its debts in the ordinary course of business, or if the consolidated assets of the company fairly valued would be less than the consolidated liabilities. In other words, this section provides a liquidity test and a solvency or “balance

---

<sup>7</sup> Companies Act, s 199 (1)

<sup>8</sup> The JSE Listing Requirements do impose more specific provisions for repurchases in the case of listed companies – see Section 2.5 below.

<sup>9</sup> As in the case of a special resolution

<sup>10</sup> The JSE Listing Requirements supplement the rather sparse provisions of Section 85(2) of the Act – see p 13 below.

sheet” test which restricts the funds available to the net assets of the company (Blackman *et al*, 2002).

Sections 85(5) and 85(6) provide respectively for the decrease in issued capital and stated capital of a company pursuant to an acquisition of shares. Section 85(7) provides that if par value shares are acquired at a premium over par value, such premium may be paid out of reserves, including statutory non-distributable reserves. Section 85(8) provides that shares acquired under section 85 shall be cancelled as ordinary shares and restored to the status of authorised shares “forthwith”; and section 85(9) in effect prohibits a company from acquiring all of its shares.<sup>11</sup>

Section 86 deals with the liability of directors and other consequences if the provisions of section 85 (4) are not complied with. It need not detain us further.

Section 87(1), read with section 87(2), does not apply to listed shares, and section 87(3) concerns formalities regarding documents. Section 87(4) deals with *pro rata* purchases of non-listed shares. Section 87(5) deals with certain notification requirements. Again, these provisions need not detain us further.

Section 87(6) provides that a stock exchange may determine further requirements with which a company whose shares are listed on such exchange shall comply prior to such company acquiring its own shares. As will be seen later,<sup>12</sup> most of the detail regarding repurchases of listed shares is provided by requirements laid down by the JSE Securities Exchange of South Africa (“JSE”).

Section 88 deals with the enforceability of contracts for the acquisition of shares, and need not concern us unduly.

---

<sup>11</sup> “Shares in the capital of a company may not be acquired under this section if, as a result of such acquisition, there would no longer be any shares in issue other than convertible or redeemable shares.” This may seem to be a case of stating the obvious, but it is not inconceivable that an argument could be made that in the absence of this prohibition, a company could repurchase all of its shares and be left in the curious position of having no share capital.

<sup>12</sup> See Section 2.5 below.

Section 89 provides that a subsidiary company may acquire shares in its holding company up to a maximum of 10% in the aggregate of the number of shares in the holding company. Prior to the 1999 amendments to the Companies Act, a company was prohibited (subject to certain exceptions) from holding shares in its holding company.<sup>13</sup> Section 89 must be read with the now amended section 39(1) which provides that if shares are acquired in terms of section 89 by a subsidiary, then for so long as such shares are held by the subsidiary, no voting rights attaching to those shares may be exercised and the percentage of votes which may be cast at any meeting of shareholders must be reduced by the number of shares held by the subsidiary.

Shares in a company which are acquired by its subsidiary are for practical purposes, but not strictly speaking, treasury shares (Blackman *et al*, 2002). This means that “full blown trafficking in the shares of the holding company by its subsidiary is possible. No doubt this will result in many repurchases being structured as purchases by a subsidiary.” (Blackman *et al*, 2002, p 5 -100).

The question has been raised as to why a subsidiary would want to purchase the shares in its holding company, and was considered in a judgment<sup>14</sup> in which it was held that the holding company could not possibly benefit economically from the purchase “save to speculate...with its own shares.”<sup>15</sup> Although this judgment was delivered before the 1999 amendments to the Companies Act were introduced, the same considerations apply, and if the views expressed in the judgment are correct, one wonders why the amendment permitting the purchase of shares by a subsidiary was enacted.<sup>16</sup>

---

<sup>13</sup> In terms of s 39 (1) as it existed prior to the amendment

<sup>14</sup> In *The Unisec Group Ltd v Sage Holdings Ltd* 1986 (3) SA 259 (T) 265

<sup>15</sup> *The Unisec Group Ltd v Sage Holdings*

<sup>16</sup> The purchase of treasury shares may have consequences for the purposes of Secondary Tax on Companies, but this does not appear to have been a factor in the formulation of the amendment to the Companies Act.

## 2.5 The JSE Listing Requirements

The provisions of the Act, as far as they relate to repurchases, are sketched in broad terms. The Act leaves the detail of regulating repurchases, at least as far as shares in listed companies are concerned, to the stock exchanges, which in effect means the JSE.<sup>17</sup> The regulations covering repurchases as laid down by the JSE are contained in the JSE Listing Requirements, and their import and effect are discussed below.

Paragraph 5.67 of the Listing Requirements provides that an acquisition by a company of its own securities or a purchase by a subsidiary of securities in its holding company in accordance with the relevant provisions of the Companies Act constitutes a repurchase of securities, in which case the holding company must comply with the relevant provisions of the Listing Requirements. As does the Companies Act, the Listing Requirements distinguish initially between two types of repurchases, namely, those that are effected:

“(a) on terms that are approved by securities holders in a general meeting in respect of that particular repurchase (‘a specific repurchase of securities’), which shall be valid until such time as the approval is amended or revoked by a special resolution; or

(b) generally approved by securities holders by the giving of a renewable mandate, which shall be valid until the company’s next annual general meeting or for 15 months from the date of the resolution, whichever period is shorter, to the directors of the company to repurchase its securities subject to the requirements of the JSE and to any other restrictions set out in the mandate (‘a general repurchase of securities’).”<sup>18</sup>

The use of the terms “a specific repurchase of securities” and “a general repurchase of securities” in the Requirements is perhaps somewhat unfortunate and confusing. It will be remembered that the Companies Act refers to a “general *approval* or a specific *approval* for a particular acquisition,”<sup>19</sup> whilst the Requirements refer to a “specific *repurchase*” or

---

<sup>17</sup> Companies Act, s 87 (6)

<sup>18</sup> Listing Requirements, par 5.67

<sup>19</sup> Companies Act, s 85 (2)

a “general *repurchase*.” This usage might, in the mind of the reader, equate the authority to repurchase with the actual act of repurchase, when they are in fact two separate steps in the process. In any event, the terms “specific repurchase” and “general repurchase” as used in the Requirements refer respectively to a repurchase carried out pursuant to a “specific approval” and a repurchase carried out pursuant to a “general approval” as contemplated in section 85 (2) of the Act.

Paragraph 5.68 of the Requirements provides that the general repurchase by a company of its own securities shall not, in the aggregate in any one financial year, exceed 20% of that company’s issued share capital of that class. The imposition of this level, although fairly high, was clearly designed to prevent market manipulation.

Paragraph 5.69 of the Requirements somewhat obliquely divides specific repurchases into two further categories, namely a repurchase “which includes a *pro rata* offer (being an offer to all securities holders *pro rata* to their existing holdings)” and “a specific offer (being an offer from [*sic*]<sup>20</sup> securities holders specifically named).” The Requirements therefore contemplate three types of repurchase in all, namely:

- a specific repurchase incorporating a *pro rata* offer;
- a specific repurchase incorporating a specific offer; and
- a general repurchase.

Paragraph 5.69 goes on to provide that a company may only make a specific repurchase subject to certain conditions, the most important of which are that:

- (a) authorisation thereto must be given by its articles;<sup>21</sup>

---

<sup>20</sup> The word “from” is as contained in the Listing Requirements. It is probable that it was instead intended that the word “to” be used – it would certainly make more sense in the context.

<sup>21</sup> This reflects the provisions of s 85 (1) of the Act.

- (b) approval must have been given in terms of a special resolution of the company by securities holders excluding, in the case of a specific offer, any shareholder and its associates that are participating in the repurchase;<sup>22</sup>
- (c) a statement must be issued by the directors that after considering the effect of such repurchase the:
- (i) company and the group will be able in the ordinary course of business to pay its debts for a period of 12 months after the date of approval of the circular; and
  - (ii) assets of the company and the group will be in excess of the liabilities of the company and the group for a period of 12 months after the date of the approval of the circular. For this purpose, the assets and liabilities should be recognised and measured in accordance with the accounting policies used in the latest audited consolidated annual financial statements;<sup>23</sup> and
  - (iii) share capital and reserves of the company and the group will be adequate for ordinary business purposes for a period of 12 months after the date of approval of the circular; and
  - (iv) working capital of the company and the group will be adequate for ordinary business purposes for a period of 12 months after the date of approval of the circular;<sup>24</sup>
- (d) in the case of a specific offer, a statement must be issued from an independent professional expert, indicating whether or not the premium paid is fair and reasonable to shareholders of the company if such premium is greater than 10% of the weighted average of the market value for the securities for the five

---

<sup>22</sup> Whilst the Act also requires the passing of a special resolution, the requirement that participating shareholders be excluded is original to the Listing Requirements.

<sup>23</sup> The effect of c (i) and (ii) is to compel the directors of the company to affirm that the provisions of s 85(4) of the Act will be complied with.

<sup>24</sup> The provisions of c (iii) and (iv) are original to the Listing Requirements and are thus additional to the Act.

business days immediately preceding the date on which the transaction was agreed, or if the premium is unknown;<sup>25</sup>

- (e) a *pro rata* offer must remain open for 21 days and must be effected in accordance with the timetable provided in the Requirements;
- (f) where a repurchase by a company of its own securities is to be made from a related party, such repurchase shall be subject to the issuer providing its securities holders with a statement from an independent professional expert, indicating whether or not the repurchase is fair and reasonable to securities holders of the issuer;
- (g) issuers may only undertake a repurchase of securities if, after such repurchase, it still complies with shareholder spread requirements;
- (h) if a company has announced that it will make a specific repurchase, it must pursue the proposal, unless the JSE permits the company not to do so;<sup>26</sup> and
- (i) a company or its subsidiary may not repurchase securities during a prohibited period as defined in the Requirements.

Paragraph 5.72 deals with the requirements relating to general repurchases, namely that:

- (a) the repurchase of securities being effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the company and the counter party (reported trades are prohibited);
- (b) authorisation thereto being given by its articles;
- (c) approval by shareholders in terms of a special resolution of the company, in annual general/general meeting, which shall be valid only until the next annual general meeting or for 15 months from the date of the resolution, whichever period is shorter;

---

<sup>25</sup> The object of this provision is clearly to protect remaining shareholders from too high a price being paid.

<sup>26</sup> For a discussion of the significance of this provision, see p 58, esp. footnote 16 therein.

- (d) repurchases may not be made at a price greater than 10% above the weighted average of the market value for the securities for the five business days immediately preceding the date on which the transaction is effected. The JSE should be consulted for a ruling if the applicants securities have not traded in such five business day period;
- (e) at any point in time, a company may only appoint one agent to effect any repurchase(s) on the company's behalf;
- (f) issuers may only undertake a repurchase of securities if, after such repurchase, it still complies with shareholder spread requirements;
- (g) an issuer or its subsidiary may not repurchase securities during a prohibited period as defined.

The Listing Requirements make provision for documents, circulars, announcements and other information which is required to be published in relation to repurchases. Different requirements apply to different types of repurchase, and as it is this difference in requirements which influenced the research methodology employed in this study, these requirements will now be examined in more detail.

Paragraph 11.23 of the Listing Requirements provides that in the case of a specific repurchase, a circular must be distributed amongst shareholders which contains, amongst other things, the following information:

1. the reason for, and method by which a company intends to repurchase its securities including the number of securities to be repurchased and the price to be paid;<sup>27</sup>
2. the effect on earnings per share, headline earnings per share, net asset value per share and tangible net asset value per share of the proposed repurchase;<sup>28</sup>
3. a statement as to the source of funds to be utilised;<sup>29</sup>

---

<sup>27</sup> Par 11.23 (c)

<sup>28</sup> Par 11.23 (f)

4. in the case of a specific repurchase, a statement complying with Schedule 5, from an independent professional expert acceptable to the JSE, indicating whether or not the premium paid is fair and reasonable to shareholders of the company if such premium is greater than 10% of the weighted average of the market value for the securities for the five business days immediately preceding the date on which the transaction was agreed.<sup>30</sup>

In addition, paragraph 11.24 requires that in the case of a *pro rata* offer, announcements must be made in accordance with the relevant timetable contained in Schedule 24; and paragraph 11.25 provides that in the case of a specific repurchase from a specific shareholder(s), the announcement must contain the following:

- (a) the terms of the repurchase;
- (b) the date of the general meeting at which the specific authority will be sought;
- (c) the shareholders from whom the specific repurchase is to be made;
- (d) the date on which the repurchase is to be made and the date on which the securities will be cancelled and the listing terminated, if applicable;
- (e) the effects on earnings per share, headline earnings per share, net asset value per share and tangible net asset value per share; and
- (f) a statement that a circular containing details of the above will be dispatched to shareholders.

As far as general repurchases are concerned, paragraph 11.26 provides, amongst other things, that if a company is seeking a general authority to purchase its own securities, a circular must be sent to securities holders, including a notice of the annual general or

---

<sup>29</sup> Par 11.23 (h)

<sup>30</sup> Par 11.23 (i)

other general meeting, and including amongst other things, a statement of the board of directors' intention regarding the utilisation of the authority sought.<sup>31</sup>

In addition, paragraph 11.27 requires that when a company has cumulatively repurchased 3% of the initial number (the number of that class of shares in issue at the time that general authority from shareholders is granted) of the relevant class of securities, and for each 3% in aggregate of the initial number of that class acquired thereafter, an announcement must be made. Such announcement must be made as soon as possible and in any event by not later than 08h30 on the second business day following the day on which the relevant threshold is reached or exceeded, and must contain, amongst other things, the following information:

- (a) the date(s) of repurchase(s) of securities;
- (b) the highest and lowest prices paid for securities so repurchased;
- (c) the number and value of securities repurchased;
- (d) the extent of the authority outstanding by number and percentage (calculated using the number of shares in issue before any repurchases were effected);
- (e) a statement as to the source of funds utilised.

Finally, it should be noted that paragraph 5.75 provides that whenever a company wishes to use repurchased shares which are held as "treasury securities"<sup>32</sup> by a subsidiary of the company, such use must comply with the Listing Requirements as if such use was a fresh issue of securities.

---

<sup>31</sup> Par 11.26 (c)

<sup>32</sup> As has been discussed, shares held by a subsidiary are not technically "treasury shares"; it is interesting to note, however, that the Requirements describe such shares as "treasury securities."

## **2.6 Specific Repurchases vs. General Repurchases**

It will be readily seen that the requirements relating to general repurchases are, of necessity, far less specific than those relating to specific repurchases. Two such requirements for specific repurchases are of particular importance in influencing research methodology:

- The first is the requirement under paragraph 11.23 which provides that the circular referred to in that paragraph must state the reason for, and method by which a company intends to repurchase its securities including the number of securities to be repurchased and the price to be paid;
- The second is the fact that each specific repurchase must be announced.

In combination, these requirements provide a publicly recorded source of information regarding the reasons for repurchases being conducted, and also provide a publicly recorded source of information regarding the nature, extent and terms of repurchase. Finally, and rather importantly, they enable the exact date on which the intended repurchase becomes public knowledge to be established. These elements are of great value for purposes of determining the effect of repurchases on shareholder wealth.<sup>33</sup>

The requirements relating to general repurchases are quite different. Whilst a company is required to issue a circular to shareholders if it intends to obtain a general authority,<sup>34</sup> the fact that it is seeking such authority does not mean that it intends actually to repurchase any shares.<sup>35</sup> Hence there is no signalling value to be found in such a circular.<sup>36</sup> As

---

<sup>33</sup> Daly states (in p 39) that “In South Africa it is not typical (nor is it a legal / regulatory requirement) for a company to announce that it is launching a share repurchase programme and the first announcement to the public relating to a share repurchase is the announcement that is required by the JSE once a company has repurchased a tranche of 3% of its shares.” This is true enough of general repurchases but, as has been shown, this is certainly not true of specific repurchases.

<sup>34</sup> Par 11.26

<sup>35</sup> Of 264 JSE-listed companies whose Annual Reports for 2004 included notices of Annual General Meetings, 150 (or 57%) contained proposals for special resolutions granting general authority to the companies concerned to repurchase shares. The majority of these contained a statement to the effect that although a general authority was being sought, it was not then anticipated that the authority would be used. It seems therefore that the trend is towards obtaining such general authority as a matter of course at Annual General Meetings, whether or not it is intended to use that authority. That being the case, information relating to authority for general repurchases as contained in the circulars is of no signalling value.

<sup>36</sup> The importance of signalling is discussed in Chapter 4.

discussed above, it is also a requirement that announcements be made when 3% thresholds are reached under general repurchase authorities,<sup>37</sup> but as these announcements are made *ex post facto*, they are of relatively limited signalling value.

Considering the different requirements relating to general repurchases and specific repurchases, and the different value of the information content of those types of repurchase, the empirical analysis contained in this study will focus on specific repurchases, for the following reasons:

- in the case of specific repurchases, the announcement date, the actual date of repurchase and the repurchase price are known before the purchase is carried out, whereas with general repurchases, the repurchase dates and repurchase prices are infrequently reported before implementation commences;
- because specific repurchases are potentially substantially larger than general repurchases (which are limited to 20% of the company's issued share capital in any financial year),<sup>38</sup> the effects are potentially likely to be more pronounced and therefore more readily observable in a specific repurchase sample;
- the extent of public disclosure of the terms of repurchase is significantly greater for specific repurchases than for general repurchases, which provides greater likelihood that the full impact of the repurchase will be observed at or around the announcement date.<sup>39</sup>

## **2.7 Summary**

The salient features of the regulatory requirements relating to repurchases in South Africa may be summarised as follows:

- Different rules apply to repurchases of shares in non-listed companies and listed companies. Repurchases in the former case are governed solely by the Companies

---

<sup>37</sup> Par 11.27

<sup>38</sup> Par 5.68

<sup>39</sup> As will be seen in Chapter 4, studies in the USA concluded that open market repurchases resulted in relatively low abnormal returns and were less likely to signal information.

Act, whilst repurchases in the latter case are governed by both the Companies Act and the Listing Requirements of the JSE;

- The Listing Requirements read with the Act in effect provide for three categories of repurchases:
  - A specific repurchase incorporating a *pro rata* offer
  - A specific repurchase incorporating a specific offer
  - A general repurchase;
- A prerequisite for any repurchase is that the articles of association of the company must permit a repurchase; in addition, the repurchase must be approved by a special resolution of the company;
- The requirements of the liquidity test and the insolvency test must be complied with;
- A company may repurchase a maximum of 20% of its shares under a general repurchase authority in any one year. This limit does not apply to specific repurchases;
- Subsidiaries may purchase shares in the capital of their holding company, subject to a maximum of 10% of the shares in the aggregate. Such shares are known as “treasury securities” in the Requirements, although technically they are not treasury shares;
- The premium which may be paid for any shares is subject to a limitation;
- Different disclosure requirements apply to specific and general repurchases.

One of the characteristics of the regulatory provisions in South Africa is that, in principle at least, they aim to involve the shareholders closely in the repurchase process. Whether in practice this is the case is, as we have seen,<sup>40</sup> open to question. In addition, the disclosure requirements relating to specific repurchases are fairly stringent, the intention

---

<sup>40</sup> See discussion in p 10.

no doubt being to enable shareholders to make informed decisions. A side-benefit of these requirements is that the market is fully informed about the circumstances surrounding a repurchase, and this, intentionally or otherwise, fits in conveniently with the signalling hypothesis discussed in succeeding chapters. It is submitted, therefore, that regulatory conditions in South Africa are such that potentially, in the case of specific repurchases, the signalling hypothesis is able to find full expression. The requirements relating to general repurchases are, as has been shown, somewhat different, requiring less in terms of disclosure requirements, but also imposing limits as to the scope of share acquisitions. The difference in these requirements influenced the choice of methodology used in this study.

University of Cape Town

## **Chapter 3**

### **Literature Review**

#### **3.1 Introduction**

This chapter is concerned with the body of theory and knowledge which has been developed in relation to share repurchases. As was mentioned previously, the bulk of research and writing on repurchases emanates from the USA, and of necessity, reliance must be placed on that country as a source of knowledge, supplemented, where appropriate, with contributions from other sources. The purpose of this chapter is to review and analyse the principal sources of knowledge pertaining to repurchases in order to provide a background for, and better understanding of, the empirical research undertaken in this study.

Literature relating to share repurchases is dealt with in this chapter under the following headings:

- Share repurchases defined;
- The various types of repurchases;
- The structural consequences of a repurchase on a company;
- Theoretical reasons for repurchases;
- South African literature

#### **3.2 Share Repurchases Defined**

A share repurchase may be defined as follows:

“A ‘repurchase’ or ‘buy-back’...is a transaction entered into between a company and one or more of its shareholders in terms of which it is agreed that the company will take back their shares in return for an agreed consideration, to be paid by the company to the shareholders concerned.” (Blackman *et al*, 2002, p 5-43)

It has been pointed out that, strictly speaking,

“the company does not ‘purchase’ or ‘buy’ its shares. A company cannot acquire rights against itself. Its ‘acquisition’ of the shares puts an end to those rights. Although the transaction is not gratuitous from the point of view of the company (rights against the company are extinguished), the company does not purchase anything. Therefore, strictly speaking, the contract is not a contract of purchase and sale.” (Blackman *et al*, 2002, pp. 5-43).

It is worth noting that the South African Companies Act does not even use the words “repurchase” or “buy-back”, but instead uses the word “acquisition” to refer to the transaction.<sup>1</sup> Nonetheless, the terms “repurchase” or “buy-back”, although not strictly accurate, have become commonly accepted in both legal and financial jargon, and these terms will be used to refer to the transaction in this study.<sup>2</sup>

In some ways, a repurchase is similar to the redemption of shares. In South Africa, even prior to the 1999 amendments to the Companies Act, a company had the power to redeem preference shares.<sup>3</sup> The major difference between a redemption and a repurchase, apart from the fact that redemptions usually apply only to preference shares, is that a redemption is carried out at the option of the company or the shareholder, as the case may be, pursuant to a contract which may be contained in the articles of the company or in the terms of issue of the shares. A repurchase, on the other hand, is a transaction between the company and one or more of its shareholders under which the company agrees to take back its shares for an agreed consideration (Blackman *et al*, 2002). In other words, in the case of a redemption, the company takes back shares in accordance with rights attaching to the shares themselves, whilst in the case of a repurchase, the company takes back

---

<sup>1</sup> Companies Act, 1973, s 85

<sup>2</sup> The JSE Listing Requirements, which set out in detail the requirements relating to repurchases of listed shares, incorporate the more technically correct word “acquisition” into the broader term “repurchase” in paragraph 5.67: “An acquisition by a company of its own securities or a purchase by a subsidiary of securities in its holding company ... constitutes a repurchase of securities...”

<sup>3</sup> Companies Act, 1973, s 98

shares in accordance with a contract between itself and the shareholders (Blackman *et al*, 2002).

A repurchase should also be distinguished from a dividend. Marsulis (1980, p 305) argues that while an issuer tender offer for common stock is similar to a cash dividend, the analogy clearly is not complete since:

- A stock purchase is generally taxed as a capital gain (or loss) while a dividend is taxed as ordinary income in its entirety;
- A stock purchase requires an associated decrease in total shares outstanding while a dividend does not;
- A stock repurchase is a voluntary transaction by individual shareholders which generally alters relative shareholdings, while a dividend is involuntary and has no effect on relative shareholdings;
- A right to tender is non-transferable and its value can only be realized by tendering shares or selling shares in the secondary market prior to offer expiration, while a dividend is received by all shareholders.

From the definitions and analyses referred to above, the following essential features of a repurchase can be derived in order to provide a working definition for the purposes of this research, namely, that a repurchase is:

- a voluntary transaction...
- entered into between a company or its subsidiary and one, some, or all of its shareholders...
- whereby the company or its subsidiary acquires from those shareholders some<sup>4</sup> of the shares in the capital of the company...
- in exchange for which the company or its subsidiary pays the shareholders a consideration...
- the immediate effect of which is to reduce the number of issued shares in the capital of the company held by “outside” shareholders.

---

<sup>4</sup> But as was seen in p 11 above, not all of the shares.

The concept of share repurchases having been defined, attention is turned in the next section to the various types of repurchase.

### **3.3 Types of Repurchase**

In the USA, there are three principal methods of repurchasing shares, namely:

- the fixed-price tender offer;
- the Dutch-auction tender offer; and
- the open-market repurchase programme.

In addition, there is a further method which is less commonly encountered and which is known as the “private purchase.”

The fixed-price tender offer involves the company offering a single price, usually at a premium, to all shareholders for a specific number of shares. The offer is valid for a specified period and may or may not be contingent on a specified minimum number of shares being tendered. If the offer is oversubscribed, management has the option to increase the size of the repurchase (Comment and Jarrell, 1991).

The Dutch-auction method also specifies the number of shares sought, but instead of a single offer price, this method specifies a range of prices within which each tendering shareholder chooses his minimum acceptable selling price. Each shareholder informs the offering firm of the number of shares which that shareholder is willing to sell and the minimum acceptable selling price within the range offered. The offering firm assembles all of these responses, orders them by the shareholders' minimum acceptable prices, and determines the lowest price that will fetch the number of shares sought. This price is then paid to all shareholders who tendered shares at a price equal to, or less than, the price as determined by the firm (Comment and Jarrell, 1991; Grullon and Ikenberry, 2000).

The open-market method is the most commonly used method in the USA (Grullon and Ikenberry, 2000), and it involves companies, either directly or through intermediaries, buying their own stock on the open market. No premium is payable in the case of open-market repurchases.

The remaining category is the private purchase. Essentially, it involves a repurchase by the company from one or more specifically targeted shareholders on such terms as may be privately agreed between the parties.

As we have already seen,<sup>5</sup> share repurchases are categorised somewhat differently in South Africa. All repurchases of shares by a company must be carried out pursuant to approvals given by special resolutions of the company in general meeting.<sup>6</sup> The principal distinction made under the Companies Act is between approvals which are of a general nature and those which are of a specific nature.<sup>7</sup> The JSE Listing Requirements, which apply to listed shares, classify a purchase made pursuant to an approval of a general nature as a “general repurchase of securities” and a purchase made pursuant to a resolution of a specific nature as a “specific repurchase of securities”.<sup>8</sup> The JSE Listing Requirements make a further distinction between two kinds of specific repurchases, namely, a specific repurchase involving a *pro rata* offer, “being an offer to all securities holders *pro rata* to their existing holdings,”<sup>9</sup> and (here the terminology becomes a little confusing) a specific repurchase involving a specific offer, “being an offer (to)<sup>10</sup> securities holders specifically named”.<sup>11</sup> To sum up then, in South Africa we have:

- general repurchases;
- specific repurchases made with a *pro rata* offer, and

---

<sup>5</sup> See Chapter 2.

<sup>6</sup> Companies Act, 1973, s 85 (2): “Subject to the provisions of this section and any other applicable law, a company may by special resolution of the company, if authorised thereto by its articles, approve the acquisition of shares issued by the company.”

<sup>7</sup> Companies Act, 1973, s 85(2): “The approval by special resolution may be a general approval or a specific approval for a particular acquisition”

<sup>8</sup> JSE Listing Requirements, par 5.67

<sup>9</sup> JSE Listing Requirements, par 5.69

<sup>10</sup> The relevant paragraph in the Listing Requirements reads “being an offer *from* securities holders...”; presumably this is an error, and it should read “being an offer *to* securities holders...”

<sup>11</sup> JSE Listing Requirements, par 5.69

- specific repurchases made with a specific offer.<sup>12</sup>

None of the methods employed for effecting repurchases in the USA has an exact counterpart in the methods employed in South Africa, inasmuch as the procedures, regulations and consequences for and of each method used in one country differ to a greater or lesser extent to those used in the other. Nonetheless, it may be said that the USA fixed-price tender offer corresponds most closely with the South African specific repurchase made with a *pro rata* offer. A series of repurchases made under a general authority in South Africa has its rough equivalent in the USA open-market programme. The third method provided for in South Africa, the specific offer, achieves much the same result as the private repurchase method in the USA. Only the Dutch-auction method of the USA appears to have no corresponding method in practice in South Africa, although in principle, there does not appear to be any prohibition on utilising a variation of the *pro rata* offer method to achieve a similar result to that of the Dutch-auction method.

It is important to understand the various methods of repurchasing shares. As will be seen, a good deal of research has been conducted in the USA into the relative “signalling” effect that the method employed for a repurchase has on shareholder wealth, and reliance has been placed on the insights provided by that research for purposes of the present research. An understanding of the various methods and their consequences is therefore of considerable value for achieving an understanding of the effects of repurchases on shareholder wealth.

Before considering those effects, it will be useful to examine the structural consequences that a repurchase has on a company, as these consequences in turn ultimately may have an effect on shareholder wealth.

---

<sup>12</sup> Somewhat confusingly, Daly (2001) states in page 2 that “Whereas in the US there are two broad types of share repurchase: the tender offer and the open-market repurchase, in South Africa the (Companies) Act and the JSE regulations essentially allow only for open market repurchases under a general authority.” If this is intended to suggest that only one form of repurchase is permitted in South Africa, then it is respectfully submitted that this suggestion is wrong.

### 3.4 Structural Consequences

A repurchase has been described as:

“a redistribution of assets coupled with a reorganisation, in the form of a reduction, of a company’s share capital, accomplished by means of a transfer of shares. But although a distribution, repurchase is not a device for putting income *pro rata* into the hands of shareholders on a continuing basis” (Blackman *et al*, 2002, p 5-43).

The effect of a repurchase, unless it is related to a refinancing, is

“to contract the size of the enterprise and to distribute assets to the selling stockholders. It is a form of partial liquidation” (Brudney and Bratton, 1993, p 609).

In South Africa, if the shares are acquired directly by the issuing company, the shares must be cancelled.<sup>13</sup> In such a case, a repurchase of shares operates as a reduction of share capital (Blackman *et al*, 2002) and the Companies Act specifically requires that issued capital be reduced accordingly.<sup>14</sup> In the United Kingdom, a similar situation prevails, and when shares are repurchased they must be treated as cancelled and the amount of the company’s issued share capital must accordingly be diminished by the nominal value of those shares (Ferran, 1999).

In the USA, the common practice is to treat repurchased shares as “treasury stock”: they are shown as a negative value in the company’s balance sheet (Brigham and Daves, 2004), and, unlike the case of a repurchase by a company of its shares in South Africa, these treasury shares may be reissued. The concept of treasury shares is not expressly contemplated in the South African Companies Act; the Act does, however, permit a subsidiary to acquire up to 10% of the issued shares of its holding company (something

<sup>13</sup> Companies Act, 1973, s 85 (8): “Shares issued by a company and acquired under this section shall be cancelled as issued shares and restored to the status of authorised shares forthwith”

<sup>14</sup> Companies Act, 1973, s 85 (5): “ In the case of the acquisition of par value shares issued by the company, the issued capital shall be decreased by an amount equal to the par value of the shares so acquired.” S 85 (6) contains a corresponding provision applicable to no par value shares.

that was not permitted prior to the 1999 amendment to the Act).<sup>15</sup> Such shares are not required to be cancelled as would be required in the case of a direct purchase by a company of its shares. They are in effect, although not technically, treasury shares (Blackman *et al*, 2002) and the term “treasury shares” has now come to be commonly used to refer to such shares in South Africa. The JSE Listing Requirements have given regulatory weight to the use of the term to describe such shares.<sup>16</sup> It should be emphasised that the purchase of a company’s shares by its subsidiary is, strictly speaking, not a repurchase as defined earlier in this chapter; nonetheless, a purchase of shares by a subsidiary is for most practical purposes treated as a repurchase.<sup>17</sup>

A final aspect which requires consideration is the relationship between repurchases and the capital maintenance rule. As was mentioned earlier,<sup>18</sup> one of the reasons offered for the prohibition against a company buying its own shares was that to do so would fly in the face of the capital maintenance rule; there is, however, “no necessary connection between permission to purchase and the abolition of the capital maintenance rule.” (Blackman *et al*, 2002, p 5-54) It is argued that the capital maintenance rule prohibits the return of funds without a formal reduction of the company’s share capital. If a repurchase requires the cancellation of the repurchased shares (as is the case under the Companies Act) then such a repurchase would not constitute an abandonment of the capital maintenance rule, as the required cancellation constitutes a formal reduction of share capital (Blackman *et al*, 2002).

The effects of a repurchase on the structure of a company may, in summary, be said to be as follows:

---

<sup>15</sup> Companies Act, 1973, s 89: “Subsidiary companies may *mutatis mutandis* in accordance with sections 85, 86 and 88, acquire shares in their holding company to a maximum of 10% in the aggregate of the number of issued shares of the holding company: Provided that this section shall not apply to the acquisition of shares by a holding company in a subsidiary of itself.”

<sup>16</sup> JSE Listing Requirements, par. 5.75: “Whenever an issuer wishes to use repurchased shares, held as treasury securities by a subsidiary of the issuer, such use must comply with the Listing Requirements as if such use was a fresh issue of securities.”

<sup>17</sup> JSE Listing Requirements par. 5.76: “The requirements of paragraphs 5.67 to 5.84 (which set out the requirements relating to repurchases) also apply to purchases by a subsidiary of securities in its holding company...” The term “buy-in” has occasionally been used to describe such a transaction, but it does not appear to have gained wide use.

<sup>18</sup> See p 2.

- It transfers assets, usually in the form of cash, from the company to shareholders;
- It either reduces the number of shares in issue, or, in the case of the purchase of shares by a subsidiary, it reduces the number of shares held by external shareholders.

This in turn may or may not increase the net asset value per share of the company, depending on the price paid for the repurchased shares, and all other things being equal, would increase the earnings per share of the company.

Share repurchases having been placed in context, attention may now be turned to a discussion of the reasons for which a firm might repurchase shares, and the theories relating to the effect of repurchases on shareholder wealth.

### **3.5 Theories and Reasons Explaining Share Repurchases**

Although share repurchases have become commonplace, it is open to question whether the reasons for carrying them out are fully understood.<sup>19</sup>

When the Companies Amendment Bill, 1999 (which became the Companies Amendment Act) was introduced, it was accompanied by an explanatory memorandum which purported to set out the reasons for which a company might repurchase its own shares. It is worthwhile quoting from this memorandum at length, as it tends to indicate that the introduction of repurchases into the law of South Africa was accompanied by some confusion:

“...our financial markets have lately entered into derivative activities on a large scale and the Johannesburg Stock Exchange (JSE) and SAFEX are rapidly becoming more complex and sophisticated. Markets have weakened considerably and this can be attributed to, *inter alia*, market manipulation by international banks and other speculators with unlimited financial resources. This factor alone poses a fundamental danger to our economy.

---

<sup>19</sup> Clark (1986), p 626 “It may be that public corporations rarely have a good reason for repurchasing their shares.”

“There are inherent dangers in the impact of speculative derivative, futures and currency trading activities which are taking place in virtually all developed investment markets and now also in South Africa. These activities if taking place in an unscrupulous way (*sic*), can easily suppress the prices of shares on the stock market. South Africa has now become a magnet for profitable trading by these speculators. This has resulted in a decline in value of most leading South African shares. Acquiring control of sound companies through these methods could lead to significant job losses and businesses closing down due to asset stripping and other irregular activities.

“One of the accepted and effective defences against this negative action in the international market place is the ability of strong companies to repurchase and cancel their own issued shares which levels the playing field in relation to those speculators wishing to reduce the value of the company’s shares by indiscriminate market activities. Legislation in most of the EEC, USA and other developed markets permits the repurchase of a company’s issued share capital, subject to solvency and liquidity criteria.

“Allowing a company to acquire its own shares to support the market for its shares, thus also preserving for its shareholders the value of its shares, is but one advantage. There are several other advantages. It is particularly useful in relation to employee share schemes in enabling the shares of employees to be repurchased on their ceasing to be employed by the company; it provides a means to avert a hostile take-over; it provides a means whereby a shareholder, or the estate of a deceased shareholder, in a company whose shares are not listed, can find a buyer.

“The main argument against the power to acquire own shares is that it may be abused. Proper checks and balances are, however, being built into the proposed provisions...”<sup>20</sup>

---

<sup>20</sup> Memorandum on the Objects of the Companies Amendment Bill, 1999

Anyone reading this memorandum and hoping to gain insights into the reasons behind share repurchases would, no doubt, be sorely disappointed. If our legislators relied on this memorandum for guidance when voting the amendments into law, then it would seem that share repurchases in South Africa are permitted for a strange combination of reasons (some of which are trite, and others quite bizarre) namely, that repurchasing:

- provides a means whereby a shareholder can find a buyer;
- enables shares of employees to be bought when they leave the company;
- provides a means of manipulating the market so as to avoid take-overs; and
- can prevent job losses (Blackman *et al*, 2002).

It is clear that the reasons contained in the memorandum are neither complete nor convincing and it is therefore necessary to look further afield to determine the reasons for share repurchases.

In answer to the question, “Why, then, do some of our<sup>21</sup> largest, most successful firms repurchase stock?” (Asquith and Mullins, 1986, p 33), it has been said that academics tend to favour three explanations. The first is the investor tax argument – repurchases are not perfect, but are an improvement on cash dividends.<sup>22</sup> The second is the leverage hypothesis, which holds that through repurchases of common stock, a firm can radically alter its capital structure, increase its debt ratio, and reap the benefits of higher leverage. The third is that repurchases are merely the recommendation by a vested interest group, namely, merchant bankers. It is, however, argued that many managers have a simpler answer. They buy back their stock because it is underpriced. In so doing, they convey valuable information to investors by providing a signal that those managers, who possess an insider’s knowledge of the firm, are convinced that their stock is worth more than its current price. Furthermore, they are sufficiently convinced to pay a premium for stock despite the risk of dilution if they are wrong (Asquith and Mullins, 1986).

---

<sup>21</sup> For “our,” read “the USA’s.”

<sup>22</sup> It must be emphasised that this comment refers to the situation in the USA and does not necessarily apply in other jurisdictions.

Intuition suggests that the reasons stated above are not the only ones which motivate share repurchases. Fortunately, there is a large body of writing which has contributed to an understanding of the reasons for which companies might repurchase their shares. Some of these reasons are mundane, and others are more complex. It should be kept in mind, however, that there is not necessarily a single dominant motive for companies to repurchase shares. In fact, in any particular company, there may be several factors which encourage the repurchasing of shares (Grullon and Ikenberry, 2000).

A number of reasons have been considered by academics. The reasons discussed below are amongst those most commonly cited; it must be emphasised, however, that this list does not purport to be exhaustive. For purposes of the present discussion, these reasons have been grouped into five broad categories, which reflect, in general terms, the motives behind repurchases. These categories are: A. Repurchases relating to changes in shareholding and control; B. Repurchases carried out for administrative reasons; C. Repurchases as an element of dividend policy; D. Repurchases aimed at increasing share value; and E. Compensation-related repurchases.

#### A. Repurchases relating to changes in shareholding and control

This broad category is concerned with repurchases carried out with a view to changing, or preventing a change in, the shareholding (with or without an accompanying change in control) of the company, whether by introducing new shareholders, or by removing existing shareholders, or by changing the proportion in which shares are held.

##### (i) Attracting external investors:

If a company's shares are not actively traded, it is not an attractive investment prospect to external investors because of the risk of being permanently locked into that investment. This risk is lessened if the company is able to act as an alternative purchaser, in which case, smaller companies may find it easier to raise share capital from external sources than would otherwise be the case (Ferran, 1999). This reason

is more commonly cited in relation to private companies, but circumstances may exist where it is relevant to smaller listed companies.

(ii) Exit for existing shareholders:

Being able to sell the shares back to the company also offers a way of unlocking the investment made by a shareholder who no longer wishes to be involved in the company (Ferran 1999). This may be particularly useful when the other shareholders do not wish to acquire the withdrawing shareholder's shares themselves or there is no willing outside purchaser. Again, this reason is more usually cited in relation to private companies, but it may be relevant to listed companies as well.<sup>23</sup> Such a repurchase possibility provides a substitute for an active stock market (Blackman *et al*, 2002).

(iii) Buying out dissident shareholders:

Repurchase provides a means by which a company can rid itself of a dissident shareholder (Blackman *et al*, 2002). This could clearly lead to abuse (Ferran 1999), more particularly, in that management may be tempted to pay a considerable premium to persuade the dissident to go (Blackman *et al*, 2002). This could be disadvantageous to remaining shareholders.<sup>24</sup>

(iv) Repurchases to avoid a takeover:

Any of a number of objectives might be achieved by repurchasing shares in a takeover situation. The repurchase may result in an increase in the proportion of shares owned by management. A repurchase might result in the increase in the price of shares beyond that which is attractive to the bidder. By embarking on a repurchase, the target company could divest itself of the liquid assets which make it attractive to the bidder, or increase its debt/equity ratio to an unattractive level. Finally, the company might resort to "greenmail", whereby it agrees to pay the

---

<sup>23</sup> See Appendix B for an example of this occurring in practice in a listed company.

<sup>24</sup> See Appendix B for an example of this occurring in practice.

bidder a substantial premium for his shares in order to induce him to turn his attention elsewhere (Blackman *et al*, 2002).<sup>25</sup>

(v) Management buyouts and going private:

Management buyouts and the process of “going private” can be facilitated by means of repurchases. The instigators of such transactions would seek to have the company repurchase shares and thereby reduce, at the company’s expense, the number of shares in issue which they would have to acquire in order to gain control of the company. In the process, the liquidity of the outstanding shares might be reduced, thereby depressing the price of those shares and placing pressure on the remaining shareholders to sell (Blackman *et al*, 2002).<sup>26</sup>

#### B. Repurchases Carried out for Administrative Reasons

Included under this category are repurchases carried out for reasons other than strategic or financial, that is to say, for purposes of facilitating administration of the company.

(i) Allowing a listed company to acquire small shareholdings, such as odd-lots:

Interestingly, this rather mundane reason is one of the most frequently used in specific repurchases in South Africa. Odd-lots are expensive and inconvenient for companies to administer. Prior to repurchases being permitted in South Africa, a company could deal with odd-lots only by matching would-be sellers of odd-lots with would-be purchasers. Companies can now sweep up odd-lots through the repurchase mechanism.<sup>27</sup>

---

<sup>25</sup> See also Brudney and Bratton (1993) for a discussion of “greenmail.”

<sup>26</sup> “The process, which proceeds according to terms unilaterally fixed by management (e.g. price) under circumstances which invite overreaching, thus results in a substantial correction of the outstanding shares of the enterprise, either leaving a small disadvantaged public constituency holding shares for which there is only a thin market or totally eliminating public holdings of the shares. In either event, shareholders are effectively frozen out, and insiders remain the owners of the enterprise, either wholly or in large part.” (Blackman *et al* (2002), p 5-61).

<sup>27</sup> As odd-lot acquisitions are merely administrative actions and hardly qualify as examples of grand corporate strategy, they are not included in the study of reasons for repurchases in South Africa in Chapters 5 and 6. Suffice it to mention that in addition to the 55 repurchases included in that study, 14 repurchases were identified as being carried out for purposes of sweeping up odd-lots.

(ii) Repurchases for use in acquisition programmes:

A company engaging in a takeover or merger might repurchase shares and then reissue<sup>28</sup> them as consideration for a takeover or merger without increasing the number of shares in issue. The objective would be to prevent dilution of the equity of non-selling shareholders which would otherwise occur if fresh shares were to be issued (Blackman *et al*, 2002).

(iii) Enabling a company to trade in its own shares:

“It is generally accepted that trafficking by a company in its own shares is an unmitigated evil which should be prohibited in absolute terms.”(Blackman *et al*, 2002, p5-51). If repurchased shares are not cancelled but retained as treasury shares, then it is notionally possible that a company may well trade in its shares. In South Africa, treasury shares, strictly speaking, are not recognised, but shares may be acquired by a company’s subsidiary, and such shares are for practical purposes the equivalent of treasury shares.

(iv) Repurchase of redeemable shares:

If redeemable shares are trading at a discount to their redemption price, a company may repurchase those shares at a price lower than the redemption price and thereby save money (Ferran,1999). Another reason that has been suggested for repurchasing redeemable shares departs from a contrary viewpoint – it might reduce the temptation for a company to redeem under a formal reduction scheme when the existence of such shares becomes onerous for the company because of a change in interest rates; the repurchasing of the shares may be viewed as preferable to a reduction scheme as it might be viewed as less coercive (Blackman *et al*, 2002).

---

<sup>28</sup>At the risk of appearing repetitive, it is again pointed out that this result would be achieved in South Africa by means of a repurchase of shares by a subsidiary.

### C. Repurchases as an Element of Dividend Policy

This category is concerned with repurchases which are carried out for purposes of dividend policy by returning wealth, represented by surplus capital, to shareholders. As has been previously pointed out,<sup>29</sup> a repurchase is not the same as a dividend, but rather an alternative to a dividend; the term “dividend policy” is therefore used in its broadest sense in the present context.

#### (i) Distribution of surplus assets:

Repurchasing shares is a method of returning to shareholders surplus cash that the company is unable to invest in projects that will generate a return greater than its cost of capital (Ferran, 1999). If a company lacks internal investing opportunities and has cash surplus to its ordinary requirements, then the excess can be employed to shrink the equity base through the repurchase of shares (Brudney and Bratton, 1993, and Blackman *et al*, 2002). Shareholders will then be at liberty to invest the proceeds as they deem fit.

An issue of critical concern is whether managers work to increase shareholder wealth by always making decisions that increase the value of the firm (Grullon and Ikenberry, 2000). With the separation of ownership and control of enterprises, managers have acquired a greater ability to put their own interests ahead of their shareholders. This gives rise to the concern that managers might allocate capital into unprofitable activities, pursuing growth and size rather than profitability and value. The costs that arise from this conflict between growth and value maximisation are known in finance theory as “agency costs,” or more precisely, as the “agency costs of free cash flow” (Grullon and Ikenberry, 2000; Grullon and Michaely, 2004). It has been argued that one way to at least mitigate such free cash flow problems is to return cash to shareholders in the form of increased dividends (Grullon and Ikenberry, 2000). Share repurchases can achieve the same effect. The free cash flow hypothesis maintains that by paying out free cash flow, share repurchases represent good news and add value by curbing management’s tendency

---

<sup>29</sup> See p 26.

to waste it on low-return investments (Gup and Nam, 2001). It has been said that any repurchase can be a good repurchase, provided it does not jeopardise the firm's ability to fund promising investment opportunities that might arise in the future (Grullon and Ikenberry, 2000).

Related to the free cash flow hypothesis is the capital market allocation hypothesis. It differs in that it asserts that even without agency problems, shareholders are better off with a share repurchase programme. The reason for this, or so the theory goes, is that shareholders can allocate funds more effectively than corporate managers, if only because they have a broader view of economy-wide opportunities (Grullon and Ikenberry, 2000).

Since a corporation can pay dividends under the same circumstances, why is the power to pay dividends not enough for fulfilment of these dividend-type functions? It has been suggested that a repurchase allows those shareholders who prefer a cash flow to sell some of their shares, while allowing those who prefer a low payout investment

“to stand pat; therefore shareholders will be better satisfied. But this argument neglects the fact that it is quite unnecessary for any particular corporation to be all things to all types of shareholders. Investors who want high yielding stocks can and do invest in companies with high dividend payout ratios, and investors who want low yielding stocks do the opposite” (Clark, 1986, p 627).

The question then arises as to why there should be any concern about this choice. “If, for whatever reason, a corporation wants to make distributions and can do so via dividends or repurchases, why worry if it arbitrarily chooses the latter?” (Clark, 1986, p 627). The reason for concern is that repurchases have a greater potential for creating unequal treatment of shareholders of the same class. If a company pays too much for its shares in a repurchase, the remaining shareholders will be disadvantaged; if it pays too little, the selling shareholders will be disadvantaged.

When dividends are paid, however, every shareholder receives the same amount per share (Clark, 1986).

It is also possible that repurchases serve as a substitute for dividends in that they provide an alternative means of distributing large, non-recurring cash flows as opposed to recurring earnings which are generally expected to be paid out regularly in the form of dividends over time (Grullon and Ikenberry, 2000).<sup>30</sup>

(ii) Dividend substitution for tax purposes:

In the USA, before share repurchases became popular in the 1980's, cash dividends were the principal means of returning excess capital to shareholders (Grullon and Ikenberry, 2000). In South Africa, prior to the 1999 amendments to the Companies Act, dividends were the only means of doing so, apart from reductions in capital permitted only in very specific circumstances.<sup>31</sup>

As we have seen, in the USA, share repurchases at one point overtook dividends as a means of distributing funds.<sup>32</sup> It has been suggested that in the USA, the increase in repurchase activity is a reflection, in part, of a broad tax-motivated substitution of repurchases for dividends (Grullon and Ikenberry, 2000). An exhaustive study (Lie and Lie, 1999) has found that tax considerations do play a significant role in the USA in the choice between a repurchase and a dividend, and that pressure from institutional investors to take advantage of tax benefits is a factor in this choice.<sup>33</sup> The reason for this is that in the USA, repurchases generally constitute a more tax-efficient form of distribution than do dividends. The marginal tax rate on dividends, which are taxed as ordinary income, exceeds that on realized capital gains; the full amount of dividend income is taxed as ordinary income, whereas only the portion

---

<sup>30</sup> In South Africa, companies have yet another choice, namely, to make payments in terms of s 90 of the Companies Act.

<sup>31</sup> See footnote 10 on p 3 for a discussion of reductions in capital prior to the 1999 amendments to the Companies Act.

<sup>32</sup> See Chapter 1 above.

<sup>33</sup> Compare this study, however, with a study conducted in 1969 referred to by Vermaelen (1981) which found that in a survey of 609 firms repurchasing their shares, managers were able to come up with no less than 29 different reasons to repurchase shares, none of them related to personal or corporate tax savings.

of the proceeds from a stock sale that constitutes a realised capital gain is taxed; and dividends are taxable when distributed, whereas taxes on capital gains are deferred until the stock is sold (Bartov *et al*, 1998).<sup>34</sup> It must be kept in mind, however, that the tax regime in South Africa is very different from that in the USA, and the considerations which apply in the USA need not necessarily apply also in South Africa<sup>35</sup> - or in other jurisdictions, for that matter.

#### D. Repurchases Aimed at Increasing Share Value

This category includes share repurchases which, in one way or another, and whether expressly or impliedly, are aimed at increasing the value of the shares of the company.

##### (i) Repurchase as a “good investment”:

A repurchase may be made ostensibly to take advantage of a perceived undervaluation to make a “good investment” for the benefit of shareholders. This has been dismissed as a “form of doubletalk,” because “after the repurchase, the funds used for it will no longer be in the corporation, or invested in its real business operations” (Clark, 1986, p 630).<sup>36</sup> If the managers are right about the market’s undervaluation, the repurchase serves only to

“shift wealth from the shareholders who sell to those who don’t. Perhaps managers see this as a division between investors who lack faith in them and

---

<sup>34</sup>In the USA, if a company makes regular repurchases of shares, the shareholders run the risk of having the proceeds of those repurchases treated as dividends. “Therefore, in the public corporation context the occasions for tax-motivated repurchases are real but limited.” (Clark, 1986, 625)

<sup>35</sup> In South Africa, the proceeds of share repurchases are (in very general terms) treated as dividends. Section 1 of the Income Tax Act, 1962, defines dividends as

“any amount distributed by a company ... to its shareholders ... and “amount distributed” includes...

(c) in the event of a partial reduction or redemption of the capital of a company, including the acquisition of shares in terms of Section 85 of the Companies Act ... so much of the sum of any cash ... as exceeds the cash equivalent of –

(i) the amount by which the nominal value of the shares of that shareholder is reduced; or

(ii) the nominal value of the shares so acquired from such shareholder...”

As a general rule, dividends are not taxable in the hands of recipients, but the distributing company is liable to pay Secondary Tax on Companies under s 64B of the Income Tax Act. The treatment of repurchase proceeds as dividends is subject to certain important exceptions – see for example, proviso (iii) to the definition of “dividends” in section 1. The recipient of the proceeds may, however, be liable for Capital Gains Tax as provided for in the Eighth Schedule to the Income Tax Act.

<sup>36</sup> Clark (p 631) also describes this reason as “nonsensical and suspect.”

those who have it and consequently think the repurchase is a fine method of punishing the doubters and rewarding the faithful. But it hardly seems appropriate for managers to be doing this. Shareholders who have more faith in the company's future are perfectly able to buy additional shares ... without management's help" (Clark, 1986, p 630).<sup>37</sup>

(ii) Repurchases to support the market for the company's shares:

A company may wish to repurchase its shares in order to bolster or stabilise the market price (Ferran, 1999). Such conduct does, however, give rise to concerns about market manipulation, which is considered a most serious consequence of recognising a right in companies to purchase their own shares. "At best, a company may seek to affect the market for its shares because it believes its shares to be 'undervalued'" (Blackman *et al*, 2002, p 5-56).

Related to repurchasing for the sake of supporting the market for the company's shares is the question of signalling. This is often treated as a separate reason for repurchasing, but it is submitted that support for market and signalling are so closely related that they are best treated as being different aspects of the same reason. The two can be conveniently combined by stating that market repurchases act as a signal to the market that management is confident that the shares will increase in value. The question of signalling support for the market is discussed in somewhat exhaustive detail elsewhere.<sup>38</sup>

(iii) Capital structure adjustments:

A company might repurchase its shares in order to adjust its debt-to-equity ratio (Blackman *et al*, 2002; Grullon and Ikenberry, 2000). Such a course of action would be based on the assumption that the company can reduce its overall cost of capital through the use of debt in the capital structure (Brudney and Bratton, 1993).

---

<sup>37</sup> Clark (1983), also at p 630: "Indeed, by raising the demand for the corporation's shares, the repurchase offer will induce some shareholders to sell who otherwise would have stood pat, and under management's own theory of undervaluation, would have participated in the company's bright but unappreciated future." See also Blackman *et al*, 2002.

<sup>38</sup> See Chapter 4 below.

A company whose capital structure is relatively heavily weighted with equity can lower its cost of capital by incurring debt and using the proceeds to repurchase shares (Brudney and Bratton, 1993; Blackman *et al*, 2002). Several studies in the USA have found that repurchasing firms do in fact experience a decline in the cost of capital (Grullon and Michaely, 2004).

Repurchases may be used to produce large-scale changes in capital structure (Brigham and Daves, 2004) or to fine-tune their leverage over time (Grullon and Ikenberry, 2000). It has been suggested that in the USA, the tender offer method of repurchase is most commonly used in order to achieve large scale changes, as typically, large proportions of shares are repurchased under that method. Open market repurchase programmes, on the other hand, are better suited to the latter objective (Grullon and Ikenberry, 2000).

But this reason is also not without its doubters. It has been pointed out that in the USA, under most state statutes, the directors of a company can reduce capital by following a voting procedure (Clark, 1986). In South Africa, at the same time that the Companies Act was amended to allow share repurchases, Section 90<sup>39</sup> was amended to permit a company to make payments to its shareholders, if authorised thereto by its articles. This would have the same effect as a repurchase as far as reducing capital is concerned, and it must therefore be questioned why a South African company would wish to follow the repurchase route to reduce capital when the somewhat less onerous procedure provided by Section 90 is available.<sup>40</sup>

#### E. Compensation-related Reasons

Repurchases may be carried out in order to facilitate or implement share-based compensation schemes.

---

<sup>39</sup> The mechanism provided by this section has not infrequently been used as a means of distributing assets to shareholders. The making of payments under this section as opposed to paying dividends or making repurchases may prove to be a fruitful topic for research.

<sup>40</sup> It is worth noting in passing that in the analysis of reasons for repurchases which forms part of this study, reducing the cost of capital was cited as a reason for repurchasing in South Africa in only one case.

(i) Repurchases for use in stock plans:

Share repurchasing is also said to be prompted by the company's obligation to issue shares under employee stock option plans. The ostensible purpose is again to avoid dilution of shareholders' equity (Blackman *et al*, 2002). Whether this objective is achieved is open to question. Whilst the number of shares in issue remains the same, the shareholders will still bear the cost of the employees' options: the option holders pay less for their shares than the company pays when repurchasing, and therefore the repurchase will involve a net distribution of assets.

(ii) Employee share schemes:

An advantage which has been claimed for allowing repurchases is that this can facilitate the operation of an employee share scheme by assuring employees of a purchaser for their shares when they leave the company (Ferran, 1999). Whether this is a serious issue is open to question (Blackman *et al*, 2002), as employee share schemes are generally operated through trusts which would purchase shares upon the departure of an employee.<sup>41</sup>

(iii) Management compensation:

Companies often use stock options and stock appreciation rights as part of the compensation plans for key employees. Unlike share repurchases, which have no effect on the value of these options, dividend payments reduce their value (Bartov *et al*, 1998). Consequently, the fact that managers own stock options may be an inducement for them to distribute cash through open-market repurchase programs rather than through dividends (Bartov *et al*, 1998).

As can be seen, the reasons for which a company might decide to repurchase its shares are many and varied. Some reasons are plausible, whilst others are less so. Some have laudable objectives, whilst others have dubious aims which verge on the illegal. Some are

---

<sup>41</sup> The power of a company to repurchase its own shares has, however, proved useful in practice in relation to employee share schemes, albeit from a different perspective – see footnote 17 on page 75 below.

logical, others make little sense; and, as has been shown above, many are subject to some trenchant criticism.<sup>42</sup>

No recent USA study indicating the frequency with which particular reasons are offered for repurchases could be found. It seems, however, that the reason which has attracted the greatest interest in academic circles relates to that of signalling in order to indicate confidence in the company and hence support the market for its shares. This aspect – both insofar as it relates to the reason and to the effect – forms, as will be seen, a cornerstone of this study, and is of particular interest for present purposes. It will therefore be considered at length in the next chapter, in which the effects of repurchases on shareholder wealth are examined.

### **3.6 South African Literature**

The literature discussed thus far in this review has emanated almost exclusively from the USA. South Africa has produced very little published work on repurchases. Surprisingly, the most comprehensive work consulted was the work on company law by Blackman *et al*, which has been referred to fairly extensively. No studies published in local academic financial journals could be located, although occasional articles have been published in the commercial daily and weekly financial press. Only three dissertations on the topic could be identified. These were:

---

<sup>42</sup> Warren Buffett, in his 1999 Letter to Shareholders, offered the following views on repurchases: “There is only one combination of facts that makes it advisable for a company to repurchase its shares. First, the company has available funds--cash plus sensible borrowing capacity--beyond the near-term needs of the business and, second, finds its stock selling in the market below its intrinsic value...To this we add a caveat: Shareholders should have been supplied all the information they need for estimating that value. Otherwise, insiders could take advantage of their uninformed partners and buy out their interests at a fraction of true worth...The business ‘needs’ that I speak of are of two kinds. First, expenditures that a company must make to maintain its competitive position...and, second, optional outlays, aimed at business growth, that management expects will produce more than a dollar of value for each dollar spent...Now, repurchases are all the rage, but are all too often made for an unstated, and in our opinion, ignoble reason: to pump up or support the stock price. The shareholder who chooses to sell today, of course, is benefited by any buyer, whatever his origin or motives. But the *continuing* shareholder is penalized by repurchases above intrinsic value. Buying dollar bills for \$1.10 is not good business for those who stick around...it appears to us that many companies making repurchases are overpaying departing shareholders at the expense of those who stay...I can’t help but feel that too often today’s repurchases are dictated by management’s desire to ‘show confidence’ or be in fashion rather than by a desire to enhance per-share value.”

- N Olsha *Share Buy-Backs: A Comparative Analysis* School of Law, University of the Witwatersrand, 2002;
- IM Rabinowitz *Share Buybacks: A South African Perspective*, Faculty of Commerce, University of the Witwatersrand, 1999;
- KJ Daly *Share Returns of Companies Announcing Share Repurchases under a General Authority* School of Business, University of the Witwatersrand, 2002.

Of these three works, only those by Rabinowitz and Daly could be located through the University Inter-library Loan Service.

The dissertation by Rabinowitz was produced before the amendments to the Companies Act discussed in the preceding chapter came into force. It provides, amongst other things, an interesting analysis of theory, a comparative analysis of regulatory provisions in various countries and a critical analysis of the then new and not yet in force South African legislation. It concludes that “South Africa is expected to benefit considerably from the long awaited introduction of Share Repurchases.” (Rabinowitz, 1999, p111)

The dissertation by Daly appears to be the first and only work involving an empirical analysis of share repurchases in South Africa. It too provided an intensive analysis of theory and focused on what are termed “open market” repurchases made in South Africa from June 1999 to September 2001 and found that there was no significant market reaction to the announcement of repurchases. This conclusion is of particular interest given the findings regarding open-market repurchases in the USA.<sup>43</sup>

### **3.7 Summary**

This chapter has, by reference to existing literature, placed the notion of share repurchases in context. In the course of so doing, it has provided a definition of repurchases, considered the various types of repurchases and the consequences thereof. In addition, it has examined the reasons which are generally offered to justify repurchases

---

<sup>43</sup> See Chapter 4 below.

and also the theoretical effect of repurchases on shareholder wealth. It has considered the regulatory environment pertaining to repurchases, with particular reference to the situation in South Africa. Finally, it has considered the literature on the topic produced in South Africa.

The following principal insights emerge from this chapter:

- A repurchase is a particular method of returning assets to investors, similar in some respects to dividends and other methods, but distinct nonetheless, with its own rules, objectives and effects;
- In both the USA and South Africa, various methods of repurchase are recognised; the particular methods employed in South Africa bear similarities to those employed in the USA, yet each country has its own rules and conventions;
- The structural effect of a repurchase on a company is that of a redistribution of assets and a partial liquidation;
- A firm may repurchase its shares for any of a number of reasons;
- The reason which appears to be most favoured in the USA, however, is that a repurchase is intended to support or improve the company's share price.

These conclusions provide the framework for the empirical research referred to in later chapters relating to share repurchases in South Africa. These chapters concern respectively the methodology employed in the research, the findings relating to the reasons for repurchases, and the findings relating to the effects of repurchases on shareholder wealth.<sup>44</sup>

---

<sup>44</sup> Chapters 5 and 6

## Chapter 4

### The Effect of Repurchases on Shareholder Value: Theory

#### 4.1 Introduction

The various methods of effecting repurchases in the USA – tender-offer repurchases, Dutch-auction repurchases, open-market repurchases and private purchases - have been referred to previously.<sup>1</sup> Various studies, which are discussed in more detail below, have shown that significant positive abnormal returns are associated with the announcements of repurchases under each of the three principal (i.e. the first three) methods. The increase in the share price is usually interpreted as support for the signalling hypothesis, which holds that firms buy back their shares when managers have private information that those shares are underpriced. As we have seen, the signalling hypothesis is but one of the reasons for which a company might repurchase its shares. It is, however, probably the reason which has undergone the deepest scrutiny from academic writers, is widely regarded by academics as the explanation for the increase in intrinsic firm value that accompanies self-tender offers, and is frequently cited by management as the principal reason for carrying out a repurchase (Asquith and Mullins, 1986).

Information signalling was identified in two separate studies published in 1981 as the main motivation for self-tender offers in the USA. One such study (Dann, 1981), examined the effects of a common stock repurchase on the value of the firm's stock and debt, and attempted to identify the dominant factors underlying the observed value changes. The evidence indicated that significant increases in firm values occurred within one day of a stock repurchase announcement, and these were due principally to an information signal from the firm. The other study published in that year (Vermaelen, 1981) examined the pricing behaviour of securities of firms following repurchases. The results were held to be consistent with the hypothesis that firms offer premiums for their

---

<sup>1</sup> See Chapter 3

shares mainly in order to signal positive information, and that the market uses the premium, the target fraction and the fraction of insider holdings as signals in order to price securities around the announcement date.

Since then, this signalling explanation has been accepted among academics (Asquith and Mullins, 1986; Comment and Jarrell, 1991; McNally, 1998) and has been the subject of several other studies. As will be seen,<sup>2</sup> however, the results of these studies are not always consistent with each other and it seems that the matter is not yet entirely settled.

In essence, the signalling hypothesis holds that only a management confident of its company's prospects would volunteer to buy back its own shares at a premium over the market value (McNally, 1998).

#### **4.2 An Examination of Various Studies**

Vermaelen's study referred to above found that in a sample of 131 tender offers in the USA, the average premium was 23% and on average, 15% of the firm's outstanding shares were repurchased. The Cumulative Abnormal Return method<sup>3</sup> was used to analyse the sample. It was found that the abnormal return during the announcement period averaged roughly 17%. As the offers expired during the succeeding weeks, the stocks sold off by only about 4%, and there was no additional decline in Cumulative Abnormal Returns for at least a year. It was concluded that the remaining gain of 13% was permanent. It will be recalled that in the case of tender offers, a firm offers to purchase its stock at a specified price, usually at a premium to the market price.

In Vermaelen's analysis of the underlying causes of these gains, the tax advantage of repurchases over dividends was rejected as a cause. The market reaction was attributed to an information effect, rather than any leverage hypothesis, and it was argued that the repurchase convinces investors that the stock was undervalued prior to the tender offer. In

---

<sup>2</sup> See p 55 below.

<sup>3</sup> This method is discussed in some detail in Chapter 5 below.

this study, it was argued that if the managers have no positive inside information, repurchasing shares at a premium above their true value will hurt the non-tendering shareholders, or rather, the shareholders who are holding the shares when the 'true' value of information becomes publicly available.

In short, it was argued that the effectiveness of a repurchase as a signal would depend on the size of the shareholdings of inside managers (the greater their holding, the more effective the signal), the size of the premium over the pre-offer market price, and the proportion of the shares sought in the offer. This is consistent with a signalling explanation.<sup>4</sup> The reasoning is that managers can possess superior information about the future prospects of the company. A share repurchase would allow owner-managers to bet on these prospects. The most convincing bets are seen as arising in those situations where managers have the most financial risk of false signalling (Comment and Jarrell, 1991). False signalling occurs when a premium is announced which significantly exceeds the amount by which the share is undervalued. False signalling would be costly to a non-tendering inside manager because the offer constitutes a dividend to tendering shareholders, at the expense of the non-tendering shareholders, to the extent that the market price falls short of the offer price after the announcement (Comment and Jarrell, 1991). In the USA, managers generally pre-commit to refrain from tendering, and if they were to signal falsely, they would be disadvantaged in that their personal wealth would be reduced (McNally, 1998). By committing not to tender, managers impose upon themselves the risk that the offer will constitute an effective dividend resulting in the loss of personal wealth. The existence of this risk to managers makes the tender far more credible as a signal (Comment and Jarrell, 1991).

Vermaelen's study also examined a sample of 234 open-market announcements. In this sample, the firms had been experiencing negative abnormal share price performance prior to the repurchase, having underperformed the market by about 7% during the preceding three months. The repurchases produced a gain of about 3%, and prices retreated about 1% during the succeeding three months, resulting in an apparently permanent gain of 2%.

---

<sup>4</sup> See also Asquith and Mullins (1986).

It will be recalled<sup>5</sup> that unlike tender offers, open-market repurchases are conducted through brokers at normal commission rates and no premium is paid. The significance of the absence of a premium is that a different model must be found to explain the effectiveness of signalling in open market repurchase programmes. Vermaelen suggests that the explanation is to be found in the fact that, because firms predominantly reissued shares to insiders via stock options, the repurchase would have been perceived as a transfer of stock from outsiders to insiders, something which would be consistent with a signal of confidence in the firm.

It is reasonable to conclude from this study that open-market repurchases are less powerful as signals than tender offers (Asquith and Mullins, 1986). Even so, both methods of repurchase were found to be advantageous to shareholders (Asquith and Mullins, 1986).<sup>6</sup> In both cases, the reasoning is that if managers believe that their shares are underpriced, a repurchase communicates their conviction to shareholders. It is backed by cash or securities, and, for tender offers, the willingness to pay a premium above the current price (Asquith and Mullins, 1986).

The other study published in 1981, by Dann, found that

“overall, the results are consistent with the hypothesis that repurchase tender offer announcements constitute a revelation by management of favourable new information about the value of the firm’s future prospects [but that] the specific nature of the information conveyed to investors by means of the repurchase announcement is not readily apparent. Careful scrutiny of the rationale for repurchase proffered by management at the announcement fails to uncover concrete disclosures regarding improvements in the distribution of the firm’s cash flows.” (Dann, 1981, pp136-137).

For the sake of completeness, it should be noted that the findings of these two studies are not quite consistent with the findings of a study published in 1980 (Masulis, 1980), which

---

<sup>5</sup> See Chapter 3 above.

<sup>6</sup> A later study found that the information conveyed by open-market share repurchases is largely ignored; see Ikenberry *et al*, 1995 p 184.

found that announcements of tender offers are associated with dramatic returns, but ascribed this phenomenon to:

- marginal personal tax advantages of converting dividends into gains;
- corporate tax benefits of financing stock repurchases with debt;
- inter-security class wealth transfers; and
- wealth transfers between tendering and non-tendering shareholders.

A later study in 1991 by Comment and Jarrell (which has been previously referred to) examined repurchases carried out in the USA from 1984 to 1989. The study examined 1197 open-market repurchases and 165 self-tender offers. Of the self-tender offers, 72 were of the Dutch-auction variety. The period selected for this study is significant because it appears that Dutch auctions became a common means of effecting repurchases only from 1984 (McNally, 1998), in other words, after the period covered by the earlier studies. In addition, the period coincides with a period of intense repurchase activity in the USA which commenced in 1984. This study found that fixed-price self-tender offers resulted in an average excess return of about 11%, Dutch auctions resulted in excess returns of under 8%, and open-market repurchase programmes produced excess returns of about 2%. It was concluded that the fact that Dutch auctions produced lower returns than fixed-price tenders is consistent with the signalling-based hypothesis that Dutch auctions are less effective as signals of stock undervaluation.

It was also concluded by Comment and Jarrell (1991) that the reason for Dutch auctions being less effective as signals is that they typically expose owner-managers to less risk than fixed-price offers. It will be recalled<sup>7</sup> that in a Dutch-auction repurchase, offers within a range of prices are elicited from shareholders – in other words, the price is determined by the market, whilst in the case of other fixed-price tenders, managers are forced to ‘stick their necks out,’ something which is taken as lending more credibility to

---

<sup>7</sup> See Chapter 3 above.

the signal. In short, the price increase from buyback announcements was greater when personal wealth was at risk and was unrelated to prior market returns.<sup>8</sup>

The study also found that Dutch auctions reduce the premium actually paid by about one-third compared to fixed-price offers. Finally, it was found that although open-market repurchases were associated with the lowest returns, a sub-sample of open-market repurchases in which more than 20% of the outstanding shares were purchased showed excess returns of about 6%, which is not far from the average for Dutch auction repurchases. This suggests that even if no premium is offered, the size of the offer can influence the returns on the share.

It was concluded that

“Overall, this study provides broad support for the theory that buybacks increase stock prices because they are credible managerial signals that the offering firm’s stock is undervalued...In addition, this study shows that signalling theory provides a unique explanation for some of the observed economic effects of stock buybacks...” (Comment and Jarrell, 1991, p 1266).<sup>9</sup>

These studies were supported by later studies. A paper by Ikenberry *et al* (1995) examined the long-run performance following open-market repurchase announcements and found that the long-term abnormal returns were substantial and sustained. A paper published in 2000 by Grullon and Ikenberry examined the reasons for repurchases and

---

<sup>8</sup> A separate study by Stephens and Weisbach (1998) found, however, that share repurchases were negatively related to prior stock performance, suggesting that firms increase their purchasing depending on the degree of perceived undervaluation.

<sup>9</sup> It was, however, pointed out that “the results do not rule out an important role being played by other theories in explaining the motivation for and effects of stock buybacks ... Moreover, our study and others show that the bulk of buyback activity is conducted through open-market repurchase programs and Dutch-auction self-tender offers, methods which have less signalling effectiveness than the conventional fixed-price offer. This suggests that most stock buyback activity may be principally motivated by objectives other than (or in addition to) signalling stock undervaluation, such as (distributing) excess cash to shareholders in a tax-efficient manner, reducing the threat of hostile stock acquisitions, or other firm-specific explanations. Nevertheless, the signalling theory enjoys the greatest success to date at explaining the differences in the typical stock-price response to various methods of corporate stock repurchase” (Comment and Jarrell, 1991, pp1266 - 1267).

found that the signalling theory was amongst the foremost reasons, but pointed out that any number of reasons might be advanced.

As was mentioned above, however, the results of not all studies are consistent with each other.<sup>10</sup> A study conducted by Grullon and Ikenberry in 2000 argued that there are, in fact, two different versions of the signalling theory. One version holds that repurchases are intended to convey management's expectation of future increases in the firm's earnings and cash flow, a view that is not shared by the market. The other version maintains that managers are not attempting to convey new information to the market, but are instead expressing their disagreement with how the market is pricing their current performance. In either case, the stock is viewed by management as being undervalued. The disagreement between the two versions centres on the cause of the discrepancy between price and fair value. In the first case, the cause is seen as being the company's inability (in the absence of a repurchase) to communicate its prospects convincingly to the market; in the second case, it is the failure of the market to reflect publicly available information in the current price (Ikenberry *et al*, 1995).

According to the first version, managers are willing to commit themselves to making cash outflows in the form of repurchases if they expect that increased future earnings will finance future capital needs. On the other hand, companies anticipating decreased earnings are not as likely to allow such cash outflows because to do so might not only force them to forego profitable investments, but might also give rise to financial distress (Grullon and Ikenberry, 2000).

This version implies that repurchasing firms should on average experience increases in future earnings and cash flows; the empirical evidence, however, is not so unequivocal. Whilst early studies found evidence of improved earnings following announcements of repurchases, they focussed on fixed-price repurchases, in which the willingness to pay a fixed premium made a more powerful statement to the market. In cases where managers made open-market repurchases, however, the evidence that increases in profits were

---

<sup>10</sup> See p 50 above.

anticipated is less supportive; in fact, a recent study indicates that in such cases, operating income declines as a percentage of total assets (Grullon and Ikenberry, 2000).

The second version maintains that managers are signalling their disagreement with how the market is pricing existing public information. It may well be that managers are in a better position than others to recognise when market prices of shares do not reflect their true value. But according to the study carried out by Grullon and Ikenberry in 2000 the initial market reaction to open market repurchases is generally about 4%,<sup>11</sup> which would appear to be small if the shares were such a bargain. It was concluded that either many companies announcing repurchases were not so undervalued or the market was somewhat sceptical of managements' claims (Grullon and Ikenberry, 2000).

In passing, it is worth noting that a separate study (by D'Mello and Shroff, 2000) found that 74% of repurchasing firms are in fact undervalued prior to the repurchase compared to 51% of a control sample of non-purchasing firms, and that the magnitude of undervaluation is significantly higher for the repurchasing firms relative to the non-repurchasing firms.

#### **4.3 Criticisms of the Signalling Hypothesis**

The notion that a company's share price can be supported by signalling is not without its detractors elsewhere. Blackman *et al* (2002) offer the criticism<sup>12</sup> that this notion is based on three assumptions which need not necessarily hold true. First, it assumes that management's *bona fide* belief that the market for the company's shares does not reflect their true value is an acceptable indicator of undervaluation; it is argued, however, that managers are poorly placed to value the shares of the own company because they are inherently biased, since any valuation inevitably involves an assessment of their own

---

<sup>11</sup> As opposed to about 15% for fixed-price offers (See Grullon and Ikenberry 2000, p 37).

<sup>12</sup> It is interesting to note that some of the most trenchant criticism of the theory of signalling emerges from the legal fraternity, rather than financial academics. The criticism discussed here emanates from Blackman *et al* and other legal sources referred to in their work. It may be that viewing the matter from the perspective of a different discipline lends objectivity to the analysis which might not be forthcoming from financial circles. Perhaps the question of intra-disciplinary "conditioning" to accept conventional wisdom (e.g. that a repurchase signals good news) might make a worthwhile subject for research!

performance. Second, it assumes that such repurchases constitute a signal by persons who know the true value of the company's shares. It is highly improbable, however, that repurchasing can ever constitute such a signal, since it is not an ordinary purchase. Rather, it is a distribution of corporate assets, and there is no obvious reason why a distribution in the form of a repurchase should indicate to the market that the company is confident that its shares are undervalued. Repurchases by a company may reveal a number of things about a company, e.g. that it is overcapitalised, but they will not in themselves constitute a signal that the company believes its shares to be undervalued. Third, it assumes that the market is inefficient. If that is the case, the low value of the shares reflects either the inefficiency of management, or, simply, that the market believes that future earnings will be low. "In either event, repurchasing signals nothing other than a willingness on the part of the company's directors artificially to affect the price of their company's shares. It will distort the market, reducing the market's effectiveness in allocating resources, and, from the point of view of the company's shareholders, will amount to nothing more than the creation of a lottery, especially where the repurchase takes the form of a general offer to acquire shares at a premium." (Blackman *et al*, 2002, p 5-57).

The soundness of using repurchases to bring market prices up to management's judgment of correct value has been questioned elsewhere by Brudney and Bratton (1993). In the first place, they question whether management's judgment is a legitimate pricing factor comparable to the judgment of buyers and sellers. They also question whether it is appropriate to use the company's cash to cure the misperception regarding value rather than releasing information. Finally, they question whether it is appropriate for management ever to use corporate assets to favour one set of stockholders (the non-sellers) over another (the sellers) by causing the corporation to make a 'bargain' purchase on the market.<sup>13</sup>

---

<sup>13</sup>One of the authors of this criticism states in another work, "Apart from tax advantages, there is reason to question the propriety of market repurchases made only because they are the company's 'best' investment. In theory, management is precluded from distributing assets to some members of the class and not to others. Yet a market repurchase is just such a skewed distribution - to the probable disadvantage rather than the advantage of the distributees..." V Brudney, A Note on "Going Private", 61 Va.L.Rev.1019, 1047-48, quoted in Brudney and Bratton (1993), pp 637-638.

It has been said that the common explanation offered by managers for repurchasing shares that “the market has persisted in undervaluing our shares and the repurchase program will, we expect, help bring the stock’s market price up to its true value” is on one level readily understandable and credible (Clark, 1986),<sup>14</sup> but on closer examination this reasoning appears highly suspect. “If we credit the efficient-markets theory – and there is now substantial evidence in support of that theory – we will find it difficult to believe that the market systematically and persistently undervalues public corporations.” (Clark, 1986, p 629). A second difficulty with this theory is that “the socially preferred way to correct misvaluation is to supply better information.” (Clark, 1986, p 629).<sup>15</sup>

Concerns have also been expressed as to whether share repurchases, more particularly, the announcement of open market repurchases, are merely an attempt by management to raise the firm’s stock price at little or no cost (Stephens and Weisbach, 1998). Presumably, the concern is that companies will announce an intention to repurchase in the hope that the announcement itself will drive the share price up, and then fail to carry out the announced intention.<sup>16</sup> A study of a sample of 450 repurchase programmes announced in the USA from 1981 to 1990 estimated that firms actually repurchased 74% to 82% of announced levels of repurchases. It would therefore appear that there is some

---

<sup>14</sup> “All of us can sympathize with the manager who thinks the brilliance and wisdom of his strategy for his company is simply not perceived by those thickheaded, uninspired stock market analysts. (‘No imagination. No long term view. All they care about is short-run profits.’ Etc.)” (Clark, 1986, p 628)

<sup>15</sup> Clark (1986), p 629 “If the managers of a company think the market misunderstands them, shouldn’t they simply work harder at communicating those facts, plans, opinions, judgments, and the like that lead them to place a high value on their corporation? Under what causal theory will having the company buy back shares, as opposed to having the company give out better information and explanations, lead more certainly to a valid ‘correction’ of market values? Basically, the corporation’s repurchase of shares will affect market price in one of two ways. Market participants may read the repurchase program as a signal that management knows information that leads it to predict a brighter future for the company. But why shouldn’t management simply convey such information and predictions directly? Or if the market trusts nonverbal signals more, why shouldn’t they simply raise their regular dividends? Alternatively, the repurchase may lead to a rise in market price because it creates an appearance of active trading based on favourable non-public information that in reality does not exist. But if this is what the repurchase program amounts to, it constitutes manipulation, which is a crime under the federal securities laws and performs no economically useful function.”

<sup>16</sup> The possibility of this occurring in South Africa was clearly real enough for the JSE to lay down paragraph 5.69(h) of the Listing Requirements, which provides that “if a company has announced that it will make a specific repurchase, it must pursue the proposal, unless the JSE permits the company not to do so.” As has been seen, however, there is no requirement that a company make an announcement prior to commencement of actual repurchases under a general authority. Announcements must be made only upon the achievement of successive 3% thresholds.

reason to conclude that this concern is not without foundation. On the other hand, 57% of firms actually repurchased more shares than originally announced (Stephens and Weisbach, 1998).

#### **4.4 Summary and Conclusions**

In summary, the signalling hypothesis in its various manifestations appears to have attracted widespread support in the USA as the principal reason for share repurchases and the principal cause for increases in share prices following repurchases. The hypothesis is not, however, without its detractors, some of whom have raised very cogent, logical and persuasive arguments against it.

Solid as these counter-arguments may be, however, the weight of opinion amongst USA writers appears to be that managers who believe their companies to be undervalued can increase the long-term value of the shares by repurchasing, and in any event, the fact remains that empirical evidence from the studies referred to in this chapter tends to support the signalling hypothesis.

It must be remembered, however, that almost the entire body of research relating to the signalling hypothesis emanates from the USA, and the discussion in this chapter relating to this hypothesis and its effect on shareholder wealth is based largely on the USA experience. The regulatory environment in that country differs considerably from that in South Africa, and caution should therefore be exercised when drawing conclusions regarding the application of these studies to the South African situation. One of the objectives of this study is to examine the effect of repurchases on shareholder wealth in South Africa, and that aspect will be examined later.<sup>17</sup>

If we accept the signalling hypothesis, it seems that the important deductions to be derived from the studies referred to above are the following:

---

<sup>17</sup> See Chapters 5 and 6 below.

- As a result of signalling, repurchases tend to lead to increased abnormal returns in share prices, whatever form (fixed-tender offer, Dutch-auction or open-market) the repurchase may take;
- The form of repurchase does, however, tend to influence the size of abnormal returns;
- The proportion of shares repurchased may influence the size of returns;
- The premium paid for repurchased shares may influence the size of returns;
- The extent of management's interest in the repurchasing firm may influence the size of returns.

The empirical study of share repurchases carried out in South Africa discussed later will attempt to relate the effects of those repurchases on shareholder wealth to the deductions referred to above.

## Chapter 5

### Methodology

#### 5.1 Introduction

The preceding chapters discussed the concept, theory and framework behind repurchases. One of the conclusions emerging from these chapters is that a company may repurchase its shares for any of a number of reasons, the most favoured reason in the USA being to support or improve the share price. The signalling hypothesis provides the underpinning for this reason: it is argued under this hypothesis that a repurchase signals good news to the market which responds by increasing the share price and hence enhancing shareholder value.

Empirical evidence emerging from studies in the USA shows that irrespective of the type of repurchase, the share prices of repurchasing companies do in fact tend to show rapid and sustained improvements which are reflected in Cumulative Abnormal Returns, such returns being ascribed to the repurchases. Evidence also shows that the *extent* of such enhancement is influenced by the method employed for a repurchase, the most significant enhancement being achieved by the methods which provide the greatest information content. Furthermore, the extent of the enhancement is also influenced by the stake which management has in the company; the more management has to lose or gain by a repurchase, the greater the value of the signal conveyed by the repurchase and hence the more seriously it is taken by the market.

These conclusions provide the framework for the empirical research referred to in the present chapter and later chapters relating to share repurchases in South Africa. These chapters concern respectively the methodology employed in the research, the findings relating to the reasons for repurchases, and the findings relating to the effects of repurchases on shareholder wealth. The research is aimed at answering the questions posed in Chapter 1, namely:

- *Why do firms in South Africa repurchase shares?* and
- *Do share repurchases create shareholder value?*

The present chapter deals with the methodology which was employed in order to achieve this end. The research methodology used is known as empirical archival analysis. Archival analysis involves the collection and analysis of already recorded data relating to events or phenomena which have occurred in the past. The purpose of such an analysis is to discern or identify a trend or trends from these events so as to enable us to determine the reasons for, and make predictions about, similar events or phenomena which may occur in the future.

It is submitted that archival analysis is an appropriate methodology for purposes of answering the research questions referred to above. It will be recalled<sup>1</sup> that the JSE Listing Requirements require the publication of certain information relating to specific repurchases, more particularly, information relating to the reasons for repurchases, the types of repurchases, the magnitude of repurchases and the sums involved. In addition, the date of publication of such information provides a very clear reference point for the commencement of any observation period. The information which is so published in regard to specific repurchases constitutes a publicly recorded body of data which is objective in character and which lends itself to such analysis. Archival analysis also facilitates *longitudinal studies*, which are appropriate when research questions are affected by variations in circumstances over time (Hair *et al*, 2003).

The broad methodology employed in this research having been established, attention is now turned to the techniques used for purposes of researching each of the research questions. These are discussed in detail below.

---

<sup>1</sup> See Chapter 2

## **5.2 Identifying Reasons for Repurchases**

As far as answering the first research question is concerned, namely, the determination of the reasons for which share repurchases are carried out by South African companies, the following approach was adopted:

- The McGregor's BFA database was scrutinised for specific repurchase circulars issued by listed companies as required by paragraph 11.23 and announcements under paragraphs 11.24 and 11.25 of the JSE Listing Requirements;
- The period covered was from 1999, being the year in which the relevant amendments to the Companies Act came into force, to the last day of December 2004;
- Inasmuch as this aspect of the research was concerned only with the reasons for repurchases, and not with the effect of repurchases, the sample was not limited by any requirement relating to a minimum observation period;
- Where, in non-compliance with the listing requirements, the reason for the repurchase was not stated in the circular or the reason was not discernable, the repurchase was excluded;
- Repurchases which were carried out for purposes of effecting odd-lot offers were excluded, inasmuch as these are assumed to have been performed for administrative rather than strategic reasons;
- All known specific repurchases, with the exception of those where the reason for the repurchase could not be ascertained and odd-lot repurchases, were therefore subject to inclusion in the sample.

## **5.3 Presentation of Research on Reasons**

The names of the companies selected for this purpose are set out in Appendix "A". A total of 55 repurchases (carried out by 47 companies) were examined for this purpose. The reasons for repurchases as disclosed in the circulars were then categorised and tabulated in Appendix "B". In cases where a company carried out more than one

repurchase, the different repurchases are distinguished numerically, for example, “Aspen (1)” and “Aspen (2).”

The results of the study relating to reasons for repurchases are discussed in Chapter 6.

#### **5.4 Determining whether Repurchases Enhance Shareholder Value**

As far as the second research question is concerned, namely, the determination of the effects of repurchases on shareholder wealth, the following approach was adopted:

- Again, the McGregor’s BFA database was scrutinised for announcements of specific repurchases by listed companies;
- An observation period commencing one year prior to the announcement date and ending two years after the announcement date in each case was selected;
- In cases where the observation period would have ended after 31May 2005, these were eliminated from the sample;
- Companies which had carried out repurchases but which for whatever reason had been de-listed prior to the expiration of the two-year post-announcement period were also eliminated from the sample;
- If for any reason the process could not be fully tracked, for example, if confirmation could not be obtained from published announcements that the repurchase had not been approved by the shareholders in general meeting, or if a complete history of the share price within the pre-and post-announcement periods could not be obtained, then the repurchase was also excluded from the sample;
- If in any case a second repurchase was carried out by the same company within the observation period, then the first repurchase was excluded.

It follows that the sample used for this objective would, by virtue of a number of companies being excluded, be smaller than that used for the first objective.<sup>2</sup> In total, 26

---

<sup>2</sup> It is acknowledged that the sample is small, but this is inevitable given the relatively low level of repurchase activity in South Africa compared to that in the USA.

repurchases were selected for purposes of the second objective. The names of the companies involved in this exercise are marked with an asterisk in Appendix “A”.

As has been noted previously, all repurchases considered for purposes of this objective were specific repurchases. Of the 26 repurchases considered, 5 were specific repurchases made with *pro rata* offers, and the remaining 21 were specific repurchases made with specific offers. It is important to keep this in mind when comparing the results of this study with the results of USA studies, which typically involved open-market purchases, tender offers and Dutch auctions.

Each of the repurchases which was examined for this purpose has been summarised, as set out in Appendix “C”. This appendix sets out the following information in relation to each repurchase, which, or so it is submitted, may have a bearing on the effect which a particular repurchase may have on shareholder wealth:

- the date of the announcement of the repurchase;
- the type of offer (that is to say, a specific offer or *pro rata* offer)<sup>3</sup>, the hypothesis being, as suggested by USA studies,<sup>4</sup> that the type of offer may influence the share price;
- an indication of whether the shares were cancelled or purchased as treasury shares, it being submitted that the fate of the shares may provide a signal regarding the intentions of the company and hence influence the share price;<sup>5</sup>
- the percentage of shares targeted for repurchase;<sup>6</sup> it will be recalled that USA studies indicate that the proportion of shares repurchased influences the share price;<sup>7</sup>

---

<sup>3</sup> See Chapters 2 and 3 for discussions on the different types of offers.

<sup>4</sup> See Chapter 4 above.

<sup>5</sup> The question to be answered is whether the market would view the retention of treasury shares as a positive signal. Intuition suggests that it would not, as this would indicate to the market that the company could easily reissue the shares, thereby negating any positive effect of a repurchase.

<sup>6</sup> In the case of *pro rata* offers, the proportion of shares targeted is announced, but that proportion need not necessarily actually be acquired.

<sup>7</sup> See Chapter 4 above.

- the price paid in relation to the market price (at market, at a premium, or at a discount); again, it will be recalled that USA studies indicate that the price paid may influence share value;<sup>8</sup>
- The size of the interest of directors in the company; this may also influence share value, as suggested by USA studies.<sup>9</sup>

Once qualifying repurchases had been selected, the closing share price for each company was obtained for each trading day within the combined period of three years. These prices were matched with corresponding daily closing JSE All Share Index prices and closing prices for the relevant sector over the same period. All prices were obtained from the McGregor's database.

In order to determine the effect of repurchases on shareholder wealth, it was necessary to establish a method of measuring the effect of a repurchase on the share price. To this end, the Cumulative Abnormal Return method was applied to the share data. This method has been used in a number of studies conducted on repurchases in the USA.<sup>10</sup> In South Africa, a variation of this methodology was used by van den Honert *et al*, (1988) in order to determine abnormal returns following mergers. The methodology used in the present study is in essence an adaptation of that method. This involves the following steps as described by van den Honert *et al*, modified for the purposes of the present study:

- The daily share prices and indices were converted to daily percentage returns according to the following formula:

$$R_{it} = \frac{P_{it} - P_{it-1}}{P_{it-1}} \times 100$$

Where:  $R_{it}$  = the return on share or index  $i$  on day  $t$

---

<sup>8</sup> See Chapter 4 above.

<sup>9</sup> See Chapter 4 above.

<sup>10</sup> See, for example, Vermaelen (1981), and also Asquith and Mullins (1986).

$P_{it}$  = the price of share or index  $i$  on day  $t$

$P_{it-1}$  = the price of share or index  $i$  on day  $t-1$

Daily returns were used in preference to weekly or monthly returns so as to allow greater precision in determining when abnormal returns occur in relation to the announcement date.

- The return of the share on any given day was then determined by applying the two-factor market-industry model, which may be written as follows:

$$R_{it} = \beta_0 + \beta_1 R_{mt} + \beta_2 S_{it} + \epsilon_{it}$$

Where:  $R_{it}$  = the return on share  $i$  on day  $t$

$R_{mt}$  = the return on the market on day  $t$

$S_{it}$  = the return on the relevant sector on day  $t$

$\epsilon_{it}$  = the stochastic error term

$\beta_0, \beta_1$   
and  $\beta_2$  = the regression coefficients

This model was used in order to exclude the effect of market-wide and sector-wide information (van den Honert *et al*, 1988).

A least-squares regression was employed to determine the parameters of the equation. The daily share returns of each company, expressed as a percentage, were regressed against the All Share Index returns and the relevant sector index returns over a period of one year up to the announcement date and a period of two years after the announcement date. The Excel "Regression" function was used for this purpose.

- The ordinary least-square estimates of  $\beta_0$ ,  $\beta_1$  and  $\beta_2$  having been determined, the expected daily returns for each share were calculated by inserting the daily market and index returns into the model, and the following formula was applied:

$$ER_{it} = \hat{\beta}_0 + \hat{\beta}_1 R_{mt} + \hat{\beta}_2 S_{it}$$

Where:  $ER_{it}$  = the expected return on share  $i$  on day  $t$

$R_{mt}$  = the market return on day  $t$

$S_{it}$  = the sector return on day  $t$

$\hat{\beta}_0, \hat{\beta}_1$

and  $\hat{\beta}_2$  = the ordinary least square estimates of  $\beta_0$ ,  $\beta_1$  and  $\beta_2$

- The abnormal daily return for the share was then calculated by means of subtracting the expected daily return for the share from the actual daily return for the share, as follows:

$$AR_{it} = R_{it} - ER_{it}$$

Where:  $AR_{it}$  = the abnormal return for share  $i$  on day  $t$

$R_{it}$  = the actual return for share  $i$  on day  $t$

$ER_{it}$  = the expected return for share  $i$  on day  $t$

If a calendar day fell on a non-trading day, then the share, market and sector prices on the next trading day thereafter were used.

The abnormal daily returns for each share having been established, these were then accumulated over the observation period. Cumulative Abnormal Returns (“CARs”) were calculated first from the commencement of the observation period until the last day of the period. The returns were then adjusted so that a zero return would be reflected on the

announcement date of each repurchase, the intention being to show more clearly the increase or decrease in cumulative returns in relation to the announcement date. In other words, a CAR of  $x\%$  on a given day shows that the CAR for that day differed by  $x\%$  from the abnormal return on the announcement day.

The CARs for all of the shares were then averaged in order to determine the Cumulative Average Abnormal Returns (“CAARs”). To this end, the announcement dates for all repurchases were aligned. Due to the fact that the number of trading days for each one-year pre-announcement period and each two-year post-announcement period was not quite the same, standardised numbers of 248 daily observations corresponding to the pre-announcement period and 496 daily observations corresponding to the post-announcement period were used.

The repurchases were further categorised as follows:

- They were divided between *pro rata* offers and specific offers, the intention being to determine whether there is any discernible difference in the effect that each of these two methods has on shareholder wealth;
- They were divided into (i) repurchases made at market price, (ii) those made at a premium on market price, and (iii) those made at a discount on market price, the intention being to determine whether the price paid in relation to the market price has any effect on the share price;
- They were divided according to the proportion of shares which are subject to the repurchase, in order to determine whether the magnitude of the repurchase has any influence on the share price. Repurchases were divided between those where the proportion of shares repurchased was (i) less than 10% of the number of issued shares (“small repurchases”), (ii) from 10% to 20% (“medium repurchases”), and (iii) more than 20% (“large repurchases”). In the case of *pro rata* offers, the proportion of shares which was stated to be the maximum number which the company intended to acquire was taken as the relevant proportion;<sup>11</sup>

---

<sup>11</sup> A feature of a *pro rata* offer is that it is not until the offer period closes that it is known how many shares were *actually* repurchased; the announcement will simply state the maximum number of shares which a

- They were divided according to the size of the shareholding of directors in the company concerned, in order to ascertain whether this factor has any effect on share price. Repurchases were divided between those where the proportion of shares was (i) less than 10% of the number of issued shares (“small interests”), (ii) from 10% to 20% (“medium interests”), and (iii) more than 20% (“large interests”).<sup>12</sup>

CAARs for each of these categories were calculated and compared with the overall CAARs for all of the repurchases in the sample.

It will be seen that the categories referred to above largely mirror the categorisation used in the studies undertaken in the USA, the intention being to determine whether the factors identified in the USA as influencing share price also play a role in South Africa.<sup>13</sup>

Finally, the share prices of each of the companies as at the announcement date were compared with the share prices on the 20<sup>th</sup> day following the announcement and at the end of the observation period. The prices compared in this case were the actual prices at the given date, and were not cumulative returns, abnormal or otherwise.

### **5.5 Presentation of Results of Research on Shareholder Value**

The results of the analysis are presented as follows:

- Appendix “D1” summarises, in tabulated form, the CARs for each of the companies as well as the overall CAARs, for every 20 trading days from the commencement date of the observation period (i.e. from the beginning of the one-year pre-announcement period), up to the 20<sup>th</sup> day before the announcement date, and then every day until the announcement date; and

---

company *intends* to repurchase. In the case of a specific offer, on the other hand, the number of shares to be repurchased will be fixed, prior to the announcement, by agreement with the party or parties from whom the shares are to be repurchased.

<sup>12</sup> See discussion on effect of size of interest in Chapter 4 above.

<sup>13</sup> See discussion in Chapter 4 above.

- Appendix “D2” summarises the CARs and CAARs every day for the first 30 trading days following the announcement date, then the 40<sup>th</sup> day, and then for every 20 trading days thereafter until the end of the observation period (i.e. until the end of the two-year post-announcement period).
- Appendix “E” contains graphs showing various CAARs and CARs, as follows:
  - Graph 1 shows the Cumulative Average Abnormal Returns for the entire sample of 26 repurchases from the beginning of the observation period to the end of the observation period. The lower line of this graph shows the CAARs calculated over the observation period with reference to the beginning of the period, whilst the upper line shows the CAARs calculated over the observation period but adjusted to the announcement date – in other words, the upper line mirrors the lower line, save that it is adjusted upwards so that the CAAR on the announcement date is zero. The intention is to show more clearly the change in CAARs in relation to the announcement date (both before and after announcement);
  - Graph 2 shows the CAARs for a period from 30 days before to 30 days after the announcement date, the intention being to show more clearly the short term effect of repurchases on share value (again, this graph has two lines, having the same purpose described above);
  - Graphs 3 to 28 show Cumulative Abnormal Returns for each repurchase for a period commencing 30 days before and ending 30 days after the announcement date, in order to show in more detail the short-term effect of individual repurchases;
  - Graph 29 shows the CAARs of the various companies when categorised according to whether the price paid was the market price, at a premium to market, or at a discount;
  - Graph 30 shows the CAARs when categorised according to the type of offer (i.e. specific or *pro rata*) in relation to overall CAARs;
  - Graph 31 shows the CAARs when categorised according to the percentage of shares repurchased or targeted, as small, medium or large repurchases;

- Graph 32 shows the CAARs when categorised according to whether the shares were cancelled, purchased as treasury shares, or in combination, in relation to overall CAARs;
  - Graph 33 shows the CAARs when categorised according to the size of the directors' interest (small, medium and large).
- Appendix "F" shows the share prices of the various companies as at the announcement date, 20 days thereafter, and at the end of the observation period, as well as the percentage changes.

The results are discussed in Chapter 6.

### **5.6 Limitations of Research**

This research was not without its weaknesses and limitations, principal amongst which were the following:

- The relative unavailability of data and the relatively small number of examples suitable for analysis. Compared to the USA, where there are literally thousands of examples of repurchases available for analysis, in South Africa, the total number of repurchases is but a few hundred, and of these only a small proportion was suitable for present purposes;
- The difficulty in isolating the effects of a repurchase from the effects of other events which may have given rise to changes in share prices. Whilst the CAR method may effectively isolate the effects in the short term, later events unrelated to the repurchase might affect the share price;
- Related to the preceding difficulty is the difficulty which arises when the repurchase occurs in conjunction with some other event. For example, a company might announce the disposal of an asset and at the same time announce that the proceeds of the disposal will be used to effect a repurchase. In such a case, there is no way of apportioning the effect of a change in CARs between the two events.

It is nonetheless submitted that, whilst these limitations rendered the research environment less than ideal, none of them detracted significantly from the validity of the research or from the soundness of any of the conclusions reached.

University of Cape Town

## **Chapter 6**

### **Research Results**

#### **6.1 Introduction**

This chapter provides an analysis and discussion of the research results which were obtained following the methodology described in Chapter 5. The two research objectives will again be considered separately.

#### **6.2 Reasons for Repurchases**

The first research objective as stated in Chapter 1 is to identify the reasons for South African companies carrying out repurchases.

Fifty-five repurchases were examined for this purpose. The reasons for specific repurchases having been extracted from the relevant circulars, they were then arranged into twenty-eight categories. The results are set out in Appendix “B”. It will be noticed that a number of companies (four) engaged in more than one repurchase. A substantial minority (nineteen) gave more than one reason for the repurchase.

It must be emphasised that some licence was taken in placing repurchases in a particular category, this being due to the reasons in some cases having been imprecisely or apparently erroneously stated in the circulars. Assumptions therefore had to be made in these cases as to the precise intention behind the reason given in the circular.<sup>14</sup>

---

<sup>14</sup> For example, in more than one instance, the stated reason was given as “to enhance net earnings” or words to that effect. If a mere repurchase had the magical effect of enhancing the net earnings of a company, it would no doubt be a far more popular device than it actually is. In such a case, it was assumed that the actual reason was to “enhance net earnings per share.”

The reasons are set out in Table 1 below, in order of frequency:

**Table 1**

<b>Reason</b>	<b>Frequency</b>
1. Enhance the company's earnings per share	13
2. Enhance the company's net assets per share	10
3. Create, maximise or enhance value for shareholders	6
4. Distribute/deploy current cash resources effectively/ more efficient utilisation of cash	5
5. Enable or facilitate exit of disinvesting shareholder <sup>15</sup>	5
6. Increase return on shareholders' equity	4
7. Shares held by share incentive trust surplus to requirements <sup>16</sup>	4
8. Disposal of shares held by share incentive trust to comply with JSE requirements <sup>17</sup>	3
9. Facilitate, or in anticipation of, winding up <sup>18</sup>	2
10. Facilitate introduction of BEE participant <sup>19</sup>	2
11. Remove uncertainty regarding shareholder's continued participation in company <sup>20</sup>	2

<sup>15</sup> This might typically occur when a shareholder wishes to withdraw but there is no ready market for his shares.

<sup>16</sup> This might occur when a share trust acquires shares for onward transfer to employees, but there is insufficient demand for such shares.

<sup>17</sup> The Listings Requirements of the JSE require that a share trust dispose of any shares for which binding unconditional agreements do not exist between participants and the trustees for participants to acquire these shares from the share trust.

<sup>18</sup> The intention here would presumably be to expedite the return of funds to shareholders so as to avoid delays inevitably occasioned by the winding-up process.

<sup>19</sup> The intention in such cases appears to have been to retain the shares as treasury shares and then transfer the shares to a suitable BEE candidate, the perceived advantage probably being that such a course of action would avoid the need to authorise or issue fresh shares, and, in the process, to avoid diluting existing shareholdings.

<sup>20</sup> This might imply that a shareholder had indicated a desire to withdraw but considerations such as the absence of a replacement shareholder or the unwillingness of existing shareholders to utilise their own funds to purchase the shares necessitated a repurchase.

12. Termination of strategic alliance <sup>21</sup>	2
13. Settlement of claim against shareholder <sup>22</sup>	2
14. Capitalise on opportunity presented by shareholder's disposal of interest	1
15. Reduce cost of capital	1
16. Reduce discount at which shares are trading	1
17. Comply with undertaking to underpin value of shares <sup>23</sup>	1
18. Take advantage of low share price	1
19. Stabilise share price	1
20. Resolve a dispute between company and shareholder <sup>24</sup>	1
21. Unlock value for departing shareholders	1
22. Repurchase in best interest of company and shareholders	1
23. Eliminate N shares	1
24. Shares trading at a discount	1
25. Termination of share incentive scheme due to value of shares being lower than purchase price	1
26. Eliminate cross-holding	1
27. Facilitate a clearer focus on the company's growth strategy	1
28. Other / no reason given <sup>25</sup>	10

<sup>21</sup> For example, a company might have acquired shares in another company in anticipation of benefiting from "synergies" created by the acquisition, but these failed to materialise. The company whose shares were acquired would then repurchase them.

<sup>22</sup> This might typically occur when a shareholder owes a company money for any of a number of causes, such as the purchase price for assets acquired from the company by the shareholder. The company would repurchase shares from the shareholder, and the price would be set off against the amount owed by the shareholder. For practical purposes, this would amount to an exchange of shares for assets.

<sup>23</sup> In the single instance of this reason being tendered, the company had issued shares to a shareholder in consideration for the assets of a business acquired from the shareholder, and warranted that the price of the shares would be "underpinned" i.e. would not drop below a certain value. When the price did in fact drop below the stated value, it was agreed that the company would repurchase the shares at the "underpinned" price.

<sup>24</sup> As part of the settlement between the company and the shareholder, it was agreed that the company would repurchase the shareholder's shares.

It may be said that some of the reasons have the same import as, or are similar to, other reasons, or are related to other reasons. It is therefore of some value to group these similar or related reasons in order to ascertain general trends. The stated reasons may be conveniently grouped into three broad categories:

- To enhance the value of shares for the benefit of remaining shareholders, including by means of enhancing earnings and assets per share, and increasing return on equity, and reducing the cost of capital. This broad category would include the reasons stated in 1, 2, 3, 6, 14, 15, 16, 18, 19, 22 and 24 above. Taken together, these reasons were used on 40 occasions, or in 73% of the repurchases included in the sample, and they account for the largest group of stated reasons for carrying out share repurchases.
- To deliver value to exiting shareholders. This includes the reasons stated in 4 and 21 above. Reasons given under this broad category were used on 6 occasions, or in 11% of the repurchases used in the sample.
- “Other” reasons. This broad category includes all reasons other than those stated in the previous two categories. Reasons falling into this category were used in 38 repurchases, or in 69% of repurchases used in the sample.<sup>26</sup>

The conclusions to be drawn from this exercise are that:

- In general terms, the main motivating factor behind share repurchases in South Africa is the enhancement of value for remaining shareholders; the term “enhancement of value” in this context includes enhancing earnings per share, enhancing net assets per share, increasing return on equity, reducing cost of capital, taking advantage of investment opportunity or low share price, reducing discount at which shares are trading, and stabilising the share price;

---

<sup>25</sup> Repurchases where no attempt to state the reason for which the repurchase was made (in non-compliance with the JSE Listing Requirements) in the relevant circular, or where the reason given for the repurchase could not be ascertained *ex facie* the document, were placed under this category. In some cases this had to be done because the reasons given in the circular were so indistinctly stated that it was impossible to categorise them meaningfully in any other way.

<sup>26</sup> The percentages clearly add up to more than 100%. It should be kept in mind that more than one reason was given in a number of cases. The percentage reflects the cases in which reasons falling in a particular category were used as a proportion of all the repurchases in the sample, not as a proportion of the total number of reasons given.

- Redeploying funds to exiting shareholders for purposes of making more efficient use of excess funds is used as a reason relatively infrequently;
- The category of “other” reasons covers a wide spectrum, including some of a uniquely South African character. The reasons in this category do not purport to be value-related (whether in favour of remaining shareholders or exiting shareholders), but this is not to suggest that repurchases carried out for any reason in this category need not create value;
- Tax considerations were not cited in even one case, and therefore do not appear to play any role in repurchases; this differs from the situation in the USA, but this is not surprising, given the different tax treatment of repurchases in South Africa;
- Reducing the cost of capital (which is included in the general category of “enhancement of value”) was cited in only one case, suggesting that in South Africa, this is not considered a significant reason for repurchasing shares.

The fact that the most common motivating factor is that a repurchase is aimed, in one way or another, at enhancing shareholder value gives rise to interesting questions in the context of the agency theory, which was earlier alluded to briefly.<sup>27</sup> The agency theory addresses the conflicts of interest which arise when the personal goals of management compete with the demands of shareholder wealth enhancement. A potential conflict of interests arises immediately whenever a manager owns less than 100% of the shares in a company (Brigham and Daves, 2004). In the case of publicly traded companies, the risk of conflict of interests is so much greater because the size of management’s interest is usually considerably smaller than in the case of closely held, private companies. The question therefore arises as to whether managers (or, more particularly, in the South African experience, the board of directors) are acting in the interests of shareholders by embarking on share repurchases, or are they merely protecting or enhancing their own interests? Related to this inquiry is the question of whether the stated or presumed objective of enhancing shareholder value is in fact achieved. Or is the outcome of a repurchase in practice unrelated to or independent of its apparent rationale? The next

---

<sup>27</sup> See Chapter 3.

section deals with the issue of whether repurchases do in fact create value, and in the process, the relationship between intent and result will be examined.

### **6.3 The Creation of Shareholder Value**

The second research objective as stated in Chapter 1 is to determine whether repurchases create shareholder value, by reference to the returns of the shares concerned. This section attempts to achieve that objective by analysing the data contained in the tables in Appendices “D1”, “D2”, and “F” and the graphs contained in Appendix “E.”

The Cumulative Abnormal Return method was described earlier and it was shown how this method was applied to the current study in order to determine the effect of repurchases on shareholder wealth.

Graph 1 in Appendix “E” read with Appendix “D1” shows a long-term (albeit not consistent) decline of CAARs from the beginning of the observation period, that is, one year before the announcement date. The CAAR at the beginning of the period is 13.06% (in other words, it is 13.06% higher than the average abnormal return on the announcement date). It then declines until a point about 200 days before the announcement date, whereafter it recovers and then declines again until a point approximately 100 days before the announcement date, when it shows an almost continuous improvement until shortly before the announcement date. Graphs 1 and 2 read with Appendix “D2” indicate that CAARs show an immediate and substantial increase after the announcement date which is largely sustained up to the end of the thirty-day post announcement period and beyond. Graph 1 read with Table “D2” shows that the positive trend after the announcement date is sustained until the end of the observation period, that is, two years after the announcement date.

It may be tempting to conclude that the evidence reflected by the CAARs shows that a repurchase will lead to an increase in shareholder value, both in the short term and the long term. A closer examination of the cumulative returns of individual companies shows

that this is by no means necessarily the case in individual repurchases. Graphs 3 to 28 read in conjunction with Table “D2” show that:

- 1 trading day after the announcement date, 16 companies showed negative CARs, with the remaining 10 showing positive CARs;
- 3 trading days after the announcement date, 12 of the companies showed negative CARs, with the remaining 14 showing positive CARs;
- 10 trading days after the announcement date, 13 showed negative CARs and 13 showed positive CARs;
- 20 trading days after the announcement date, 11 showed negative CARs and 15 showed positive CARs;
- 30 trading days after the announcement date, 8 showed negative CARs and 18 showed positive CARs.

It might have been expected that the effect of a repurchase - if there were to be any effect - would be almost instantaneous and would become manifest within a few days of the announcement. This expectation is indeed reflected in the CAARs. In the case of individual CARs, however, positive returns are in a number of instances reflected only some time after announcement, and in other instances, not at all. This indicates that the information effect (if it is assumed to convey good news), whilst immediate in some cases, takes some time to become manifest in others. Certainly, if the signalling hypothesis is to be given any credence, a point must be reached beyond which any change in share price could not be attributed to the effects of a repurchase. Assuming that such a point must be reached within 20 trading days<sup>28</sup> of an announcement, it follows that any changes to a share price after that point must be attributable to factors other than the repurchase itself.<sup>29</sup>

---

<sup>28</sup> It is acknowledged that this period of 20 days has been arbitrarily selected, but again it is asserted that if the signalling hypothesis is to be relied upon, it is to be expected that changes in share price attributable to a repurchase would soon become evident; hence, it is submitted, the 20 day period is, if anything, somewhat generous.

<sup>29</sup> All of the companies demonstrated “outliers,” both positive and negative, in their daily ordinary returns during that portion of the post-announcement period which fell after the expiration of 20 trading days. Each of these had a significant effect on the CARs and might be attributable to any of a number of events, e.g. dividend declarations, release of results, etc. It is highly doubtful that a return of such magnitude as to bring

The companies which showed positive CARs 20 days after announcement are set out in Table 2 below, in descending order:

**Table 2**

<b>Company</b>	<b>CAR % Increase</b>
1. Moribo	43.90%
2. Aspen (1)	23.75%
3. Murray & Roberts	15.66%
4. AECI	14.24%
5. Cullinan	12.91%
6. DAWN (2)	9.96%
7. Shoprite	9.10%
8. Aquila (1)	7.69%
9. Hosken	7.72%
10. Paracon (2)	7.62%
11. Brandcorp	6.43%
12. Purple (2)	4.69%
13. Mustek	3.69%
14. UCS	3.16%
15. Transpaco	2.84%

Of the 15 repurchases carried out by these companies:

- 12 involved specific offers, and 3 involved *pro rata* offers;
- All repurchased shares were cancelled in 7 cases, in 6 cases some shares were cancelled and some repurchased as treasury shares, and in 2 cases all shares were repurchased as treasury shares;

---

it within the category of outlier would be due to a repurchase at such an extended period after the announcement date.

- The repurchased shares constituted less than 10% (“small repurchases”) of the issued shares in 7 cases, from 10% to 20% (“medium repurchases”) in 4 cases, and more than 20% (“large repurchases”) in 4 cases;
- 5 repurchases were carried out at market prices, 8 at a premium and 2 at a discount;
- In 5 cases, the total directors’ interest was less than 10% (“small interest”), in 2 cases it was from 10% to 20% (“medium interest”), and in 8 cases it was more than 20% (“large interest”).

The companies which showed negative CARs 20 days after the announcement are set out in Table 3 below, in descending order:

**Table 3**

<b>Company</b>	<b>CAR % Decrease</b>
1. Peregrine	-0.26%
2. Gold Reef	-0.85%
3. Netcare	-1.09%
4. Connection	-1.69%
5. Invicta	-2.93%
6. Control	-3.42%
7. BJM	-3.55%
8. Investec <sup>30</sup>	-6.04%
9. Purple (1)	-6.74%
10. PSG	-15.68%
11. Quyn	-23.08%

Of the 11 repurchases carried out by these companies:

- 9 involved specific offers, and 2 involved *pro rata* offers;

<sup>30</sup> In the case of Investec, the size of the repurchase was so small (0.61% of issued shares) that it must be open to question whether it had any significant influence on share price. Although Investec has been included in this study, the findings insofar as they relate to Investec must be treated with caution.

- Repurchased shares were all cancelled in 3 cases, in 5 cases some shares were cancelled and some repurchased as treasury shares, and in 3 cases all shares were repurchased as treasury shares;
- The repurchased shares constituted small repurchases in 4 cases, medium repurchases in 4 cases, and large repurchases in 3 cases;
- 1 repurchase was carried out at market price, 6 were carried out at a premium and 4 at a discount;
- In 4 cases, the total directors' interest was small, in 5 cases it was medium, and in 2 cases it was large.

An examination of graphs 29 to 33 in Appendix "E", which show CAARs segmented according to price paid, type of offer, size of repurchase, fate of shares and size of directors' interests, would suggest that, in the short term:

- The CAARs of companies which repurchased at market price increased to a far greater extent than those which repurchased at a premium (which is difficult to explain, given the findings of the USA studies), which in turn increased to a greater extent than those which purchased at a discount (which is consistent with expectations);
- Repurchases which involved specific offers produced far greater returns than those involving *pro rata* offers (it will be recalled from the examination of the USA studies that the tender offer – the closest equivalent of our *pro rata* offer – was considered to have the most information content; but it may well be argued that our specific offer, which does not have a frequently used counterpart in the USA, provides even more information content);
- For most of the short-term observation period, small repurchases produced greater CAARs than did large repurchases (which, again in the light of USA studies, is surprising), but both produced greater CAARs than medium repurchases;
- Where all shares were cancelled, CAARs were greater than in cases where all shares were purchased as treasury shares (which would seem to suggest that the fact that shares are to be cancelled would be viewed as a firmer signal of good

news) which in turn produced greater CAARs than where some shares were cancelled and others purchased as treasury shares;

- Where directors had a small interest, CAARs were greatest (which is surprising, given the conclusion in the USA studies that the larger the interest of management, the greater the abnormal returns); large interests produced the second best CAARs, whilst medium interests produced the lowest CAARs.

As was indicated above, many of the results of the segmented CAAR analysis described above are surprising and counter-intuitive.

The difficulty with using CAARs to evaluate small samples is that individual observations may skew the picture unduly. A number of shares which were included in the sample were “pennystock” shares, which traded for a few cents; a change in price of a few cents (or even one cent) can translate into a substantial difference in percentage terms, which would unduly influence the CAARs. It was with this in mind that the CARs after 20 days were also examined individually rather than on an average basis, as shown above.

An analysis of the companies which, when observed individually, produced positive CARs compared with those which produced negative CARs after 20 days would tend to suggest that:

- Specific offers and *pro rata* offers were roughly proportionate amongst companies which showed positive CARs and those which showed negative CARs (80% for positive CAR companies vs. 82% for negative CAR companies);
- Cases in which shares were all cancelled were disproportionately high amongst companies which showed positive CARs, although they did not constitute an outright majority (47% vs. 27%); cases in which all shares were repurchased as treasury shares were somewhat disproportionately low amongst positive CAR companies (40% vs. 45%); cases in which shares were both cancelled and repurchased as treasury shares were disproportionately low amongst positive CAR companies (13% vs. 27%);

- Repurchases which were carried out at a premium were roughly proportionate in the case both of those companies which showed positive CARs and those which showed negative CARs (53% vs. 54%); discount repurchases constituted a very small minority in the case of positive CAR companies and a larger minority in the case of negative CAR companies (13% vs. 36%). Repurchases carried out at market price were disproportionately large in the case of companies showing positive CARs (33% vs. 9%);
- Small repurchases were disproportionately high amongst companies showing positive CARs (47% vs. 36%); medium repurchases were disproportionately low amongst positive CAR companies (27% vs. 36%) and exactly proportionate for large repurchases (27% each);
- Cases in which directors held a small interest were roughly proportionate amongst both positive CAR companies and negative CAR companies (33% vs. 36%); where directors had a medium interest, the incidence was disproportionately low for positive CAR companies (13% vs. 45%); and disproportionately high for positive CAR companies where directors held a large interest (53% vs. 18%).

As to the long-term outcome, it will be seen from Appendix “D2” that:

- Of the 15 companies which showed positive CARs 20 days after the announcement date, all but 4 (Aquila, Shoprite, Transpaco and Purple Capital (2)) still showed positive CARs at the end of the observation period (i.e. two years after announcement);
- Of the companies which showed negative CARs at 20 days, 7 (Connection Group, Gold Reef, Investec, Invicta, Netcare, Purple Capital (1) and Quyn) were still in negative territory at the end of the observation period.

In other words, 15 of the companies showed positive CARs at the end of the observation period. This is the same number as at day 20, but not all the same companies made up this group. Logic dictates, however, that only those which showed early responses to repurchases could lay any claim to having their long-term returns improved as a result of the repurchases.

A relationship which requires examination is that between the stated reason for a repurchase and its success. It will be recalled that the various reasons for carrying out repurchases were examined and arranged into three broad categories, namely:

- Repurchases aimed at enhancing value for remaining shareholders
- Repurchases aimed at unlocking value for exiting shareholders
- Repurchases carried out for “other” reasons.

Companies which showed positive CARs 20 days after announcement are set out in Table 4 below, together with the broad category of reason given for the repurchase:

**Table 4**

<b>Company</b>	<b>Reason</b>
1. Moribo	Other
2. Aspen (1)	Enhance Value
3. M & R	Enhance Value
4. AECI	Enhance Value
5. Cullinan	Other
6. DAWN (2)	Enhance Value
7. Shoprite	Other
8. Aquila (1)	Enhance Value
9. Hosken	Unlock Value
10. Paracon (2)	Enhance Value
11. Brandcorp	Other
12. Purple (2)	Other
13. Mustek	Other
14. UCS	Other
15. Transpaco	Other

Companies which showed negative CARs 20 days after announcement are set out in Table 5 below, together with the broad category of reason given for the repurchase:

**Table 5**

<b>Company</b>	<b>Reason</b>
1. Peregrine	Other
2. Gold Reef	Enhance Value
3. Netcare	Other
4. Connection	Enhance Value
5. Invicta	Enhance Value
6. Control	Enhance Value
7. BJM	Enhance Value
8. Investec	Other
9. Purple (1)	Unlock Value
10. PSG	Other
11. Quyn	Other

Of the 11 cases in which the reason for the repurchase was given as to “enhance value,” 6 showed positive CARs after 20 days and 5 showed negative CARs. In the longer term, i.e. at the end of the observation period, only 4 of those which initially showed positive CARs were still in positive territory.

Of the two companies which engaged in repurchases ostensibly to unlock value for exiting shareholders, one showed positive CARs after 20 days whilst the other showed negative CARs.

It is also interesting to note that of the 15 companies which showed positive CARs after 20 days, 8 gave “other” reasons for the repurchase – apparently, despite the absence of any stated desire to enhance value, this is in fact precisely what was achieved.

The question must inevitably arise as to who wins in a repurchase: the shareholders who sell or those who remain? Appendix “F” shows the share prices of the various companies as at the announcement date, a date being 20 trading days thereafter, and the date at the end of the observation period, as well as the percentage changes from the announcement date to each of the latter two dates. It must be emphasised that these changes are not cumulative nor do they relate to abnormal returns. They merely represent the increase or decrease in prices in percentage terms. These changes were then compared to the premiums or discounts at which the shares were repurchased, as shown in Table 6 below:

**Table 6**

<b>Company</b>	<b>Premium/Discount</b>	<b>Price Change Day 20</b>	<b>Price Change at end</b>
1. AECI	0%	17.9%	124.02%
2. Aquila	13.64%	8.18%	45.45%
3. Aspen	-3.6%	26.51%	58.31%
4. BJM	-18.5%	-4.48%	-15.32%
5. Brandcorp	13%	13.04%	334.78%
6. Connection	0%	2.5%	255%
7. Control	2%	1.02%	150%
8. Cullinan	900%	0%	450%
9. DAWN	21.6%	8.11%	548.65%
10. Gold Reef	20%	4.4%	184%
11. Hosken	15.9%	9.76%	176.59%
12. Investec	33.7%	-1.9%	-25.17%
13. Invicta	-2.49%	0%	142.86%
14. Moribo	0%	42.86%	114.29%
15. M & R	4%	19.35%	306.45%
16. Mustek	0%	-9.43%	43.4%
17. Netcare	Unspecified	0.67%	66.33%
18. Paracon	-41%	6.67%	-13.33%
19. Peregrine	-9.6%	-4%	-39.2%

20. PSG	190%	-16.15%	-22.68%
21. Purple (1)	20.8%	0%	-50%
22. Purple (2)	0%	8.33%	-58.33%
23. Quyn	-2.6%	-20%	-80%
24. Shoprite	107%	9.3%	24.96%
25. Transpaco	25.9%	7.41%	37.04%
26. UCS	0%	0%	100%

By determining the difference between the premium or discount paid and the percentage change in price, and assuming that the exiting shareholders had no investment opportunities for the proceeds of the repurchase, an approximation of the relative change in wealth of the exiting shareholders and those who remained can be obtained.

At 20 days, we see that in the following cases, those shareholders who remained were relatively better off than those who sold:

- AECI
- Aspen
- BJM
- Brandcorp (marginally)
- Connection
- Invicta
- Moribo
- M & R
- Paracon
- Peregrine
- Purple (2)(11 in total);

and in the following cases, the exiting shareholders were relatively better off:

- Aquila
- Control

- Cullinan
- DAWN
- Gold Reef
- Hosken
- Investec
- Mustek
- PSG
- Purple (1)
- Quyn
- Shoprite
- Transpaco

(13 in total).

In the case of UCS, there was no difference. The position regarding Netcare could not be established.

As can be seen, in a small majority of cases, the exiting shareholders were better off in the short term.

In the longer term, i.e. at the end of the two-year post-announcement period, the exiting shareholders were better off in the case of the following companies:

- Cullinan
- Investec
- Peregrine
- Purple Capital (1) and (2)
- Quyn
- Shoprite
- PSG

In the longer term, therefore, the remaining shareholders were better off in a substantial majority of cases. Again, it must be emphasised that this statement is based on the assumption that the exiting shareholders had no further investment opportunities for the proceeds received by them.

#### **6.4 Analysis of Results**

In Chapter 4, the findings of various studies on repurchases conducted in the USA were discussed. It will be recalled that the findings of many of these studies were fairly unequivocal in that they concluded that on the whole, repurchases, whatever form they took, resulted in long-term gains for shareholders. In addition, it was concluded that the size of the interest of managers in the repurchasing company, the proportion of shares repurchased, the price paid and the type of repurchase all had an influence on the extent of the gains. The cause of the gains was attributed to the signalling effect of the repurchase.

Having regard to the results obtained in the USA studies, one might have concluded that a study of repurchases in South Africa would yield similarly unequivocal results. When we examine the results of the present study, however, it would seem that they are somewhat more tentative than one might have expected. Certainly, the CAARs of all the repurchases suggest that:

- as a general proposition, specific repurchases are followed by an immediate, obvious and long-term sustained increase in CAARs;
- repurchases conducted at market price yielded the highest short-term gains (contrary to expectations);
- repurchases incorporating specific offers yielded higher short-term CAARs than did *pro rata* offers;
- small repurchases produce the highest short-term CAARs (also contrary to expectations);
- in cases where all shares were cancelled (as opposed to being treated as treasury shares), CAARs were higher than otherwise;

- where directors had a small interest, the largest short-term CAARs were produced.

It must be kept in mind, however, that a small sample of repurchases was relied on for purposes of the present study; that being the case, CAARs may be unduly influenced by one or two repurchases.

When individual repurchases are examined, the results are not quite as unequivocal. Individual examination would suggest that in the short term:

- a majority of repurchases resulted in positive CARs in the short term, but over the long term, they became a minority;
- there is no material difference between the ratio of specific to *pro rata* offers in positive CAR-yielding repurchases and in negative CAR-yielding repurchases;
- whilst repurchases carried out at a premium are equally well-represented amongst positive- and negative-yielding repurchases, repurchases carried out at market price are better represented amongst positive CAR-yielding repurchases;
- small repurchases were disproportionately high amongst companies showing positive CARs;
- most repurchases involving large directors' interests resulted in positive CARs.

The above would tend to support the conclusion that there is evidence to suggest that specific repurchases are followed by positive CAARs in both the short term and the long term. When repurchases are examined individually, however, it is seen that a majority of them show positive CARs in the short term but in the long term only a minority show sustained positive CARs over the entire observation period.

There is very tentative evidence regarding the effects of the size of repurchase, type of repurchase, price paid, fate of shares and size of directors' interest, and such evidence as there is renders it difficult to draw any conclusions in this regard.

As to the environment in South Africa in which repurchases are carried out, it is submitted that both statutory provisions and regulations made under these provisions are conducive to signalling the views of management to the market. This fact makes the somewhat equivocal results, at least insofar as the various factors such as type and size of repurchase are concerned, all the more surprising. This may be due to any of a number of reasons, such as:

- The market in South Africa may not be as “conditioned” to signalling as it is in the USA;
- The purpose and intent of repurchases may be differently understood in South Africa;
- Share repurchases may not necessarily be viewed as unequivocally good news in South Africa;
- The market in South Africa is less inclined to believe signals;
- The market in South Africa is not yet attuned to the subtleties implicit in the information content and signalling value of the various factors involved in repurchases, such as the size of repurchase, the price paid for the shares, and the like.

A striking observation is the relatively low “success rate” achieved by repurchases at 20 days after announcement date where the stated or implied intention was to enhance value, whilst repurchases carried out for “other” reasons achieved a high rate of positive returns at 20 days. One might have thought that logically, if the signalling hypothesis holds true, a stated or implied intention to enhance value would have produced a more definitively positive effect, whilst “other” reasons would have produced mostly neutral or negative results. It turns out, however, that “other” reasons might have as good a prospect of resulting in positive returns in the short term.

Finally, it will be recalled that Daly (2002)<sup>31</sup> found that there was no significant market reaction to the repurchases examined in his study. How can this be reconciled with the findings of the present study, which certainly show that in the short term, at least, there

---

<sup>31</sup> See p 47.

was a clear, albeit not overwhelming, reaction to the repurchases covered by it? It is submitted that this is at least partly attributable to the fact that the present study focussed entirely on specific repurchases as opposed to open market repurchases – a conclusion which would be consistent with the notion that the information content accompanying specific repurchases is greater than in the case of open-market repurchases in general.

### **6.5 Summary of Results**

In summary, the results of this study show that:

- the most frequently stated reason for the carrying out of share repurchases is to enhance value;
- specific repurchases are followed by an immediate, obvious and long-term sustained increase in CAARs;
- by contrast, when individual CARs are examined, it appears that a majority of repurchases resulted in positive CARs in the short term, but over the long term, they became a minority;
- in a small majority of cases, the exiting shareholders were better off in the short term than those who remained ( measured by reference to the change in price in relation to the premium or discount at which the shares were repurchased);
- in the longer term, however, the remaining shareholders were better off in a substantial majority of cases.

## **Chapter 7**

### **Conclusions and Recommendations**

#### **7.1 Purpose and Scope of and Approach to Study**

This study is concerned with the phenomenon of share repurchases in South Africa. More specifically, it focused on repurchases of a particular type, namely, specific repurchases, and the questions which it attempted to answer were the following:

- *Why do firms in South Africa repurchase shares? and*
- *By so doing, do they create shareholder wealth?*

In order to answer these questions, an empirical archival research methodology was employed. For purposes of answering the first question, this involved an examination of the publicly stated reasons for which specific repurchases are carried out in South Africa, by consulting the circulars and announcements published as required under the JSE Listing Requirements in respect of these repurchases. For purposes of the second question, the methodology involved the determination and analysis of Cumulative Abnormal Returns following the announcement of intended repurchases.

#### **7.2 Principal Answers**

The principal answers to the research questions are as follows:

- It was found that the largest single group of reasons for which companies repurchased shares related to the enhancement, directly or indirectly, of shareholder wealth;
- Cumulative Average Abnormal Returns do indicate that repurchases are followed by the enhancement of shareholder wealth, both in the short term and the long term; when the repurchases are examined on an individual basis, however the results are more equivocal.

### **7.3 Insights Provided by Research**

It is submitted that the following conclusions may be drawn from this evidence:

- Specific repurchases may result in positive Cumulative Average Abnormal Returns in the short term and that such positive returns are likely to endure for the long term;
- Factors such as the type of offer, the size of the repurchase, the premium paid, the size of the directors' interest and the fate of the shares, produce, however, either inconclusive results or results which are so counter-intuitive that they are inexplicable;
- Where the stated objective of a repurchase is to enhance shareholder value by means of a repurchase, this objective is achieved in the short term in only a small majority of cases, and in a minority of cases in the long term; on the other hand, where the objective is not stated to be for purposes of enhancing value, that is often precisely what occurred – in fact, it occurred in a small majority of cases;
- There is therefore at best only a tenuous relationship between the intended outcome of a repurchase insofar as it relates to shareholder wealth and the actual outcome;
- Similarly, there is at best only a tenuous relationship between the factors referred to above (type of offer, size of repurchase, etc) and the creation of shareholder wealth.

Does this suggest that the outcome of a specific repurchase is unpredictable? The evidence of the present research tends to suggest that this may well be the case. It must be emphasised again that the present study was confined to specific repurchases, and that the great majority of repurchases, that is to say, those which may be classified as general repurchases, were excluded. As was previously indicated, the result is therefore all the more surprising, given the fact that specific repurchases should have more information

content and therefore a sample consisting of only specific repurchases would be expected to produce more definitive results than a mixed sample.

#### **7.4 Areas for Further Research**

It is submitted that share repurchases in South Africa have not yet been exhausted as a topic of research. The following aspects might, it seem, bear fruit:

- The somewhat equivocal results of certain aspects of this study suggest that the market in South Africa does not view repurchases in quite the same way that theorists in the USA suggest that it should. The collecting and analysis of empirical evidence on this aspect would prove valuable;
- Research on *pro rata* offers would, it is suggested, prove interesting when a larger sample of repurchases employing this method becomes available, given the purportedly high information content of the closest USA equivalent of the *pro rata* offer, namely, the self-tender offer;
- Although the reduction of the cost of capital was given as the reason for a repurchase in only one case, it would be of value to conduct research into the effect of repurchases on the cost of capital, irrespective of the stated reason;
- Further in-depth study on the beneficiaries of repurchases, i.e. shareholders who exit as opposed to those who remain, would, it is submitted, prove useful;
- A comparison between specific repurchases and general repurchases would also prove beneficial, provided that a method can be established of accurately determining the date on which the repurchasing company's intentions enter the public domain;
- Research into the purchase of treasury shares, more particularly, as to the reasons for which they are repurchased and their ultimate fate, would assist in understanding the tendency displayed by companies to have subsidiaries purchase at least some of the shares as treasury shares;
- Research into the choice between repurchases and payments to shareholders under Section 90 of the Companies Act would prove valuable.

## References

Asquith, P. and Mullins, D.W. (1986): "Signalling with Dividends, Stock Repurchases and Equity Issues" *Financial Management* pp 27-44

Bartov, E, Krinsky, I and Lee, J. (1998): "Evidence on How Companies Choose Between Dividends and Open-Market Stock Repurchases" *Journal of Applied Corporate Finance* Volume 11 Number 1 pp 89 - 96

Blackman, M.S, Jooste R.D and Everingham G.I.L.(2002): *Commentary on the Companies Act* (Juta)

Brigham, E.F. and Daves P.R. (2004): *Intermediate Financial Management* 8<sup>th</sup> Ed. (Thomson Learning)

Brudney, V. and Bratton, W.W. (1993): *Brudney and Chirelstein's Corporate Finance – Cases and Materials* 4<sup>th</sup> Ed. (Foundation Press)

Clark, R.C. (1986): *Corporate Law* (Little, Brown)

Comment, R. and Jarrell, G.A. (1991): "The Relative Signalling Power of Dutch-Auction and Fixed-Price Self-Tender Offers and Open-Market Share Repurchases" *The Journal of Finance* Vol. XLVI, No. 4 pp 1243-1267

Daly, K.J. (2001): "Share Returns of Companies Announcing Share Repurchases under a General Authority" MBA Research Report, University of the Witwatersrand

Dann, L.Y. (1981): "Common Stock Repurchases: An Analysis of returns to Stockholders and Bondholders" *Journal of Financial Economics* Volume 9, Issue 2 pp 113-138

D'Mello, R. and Shroff, P.K. (2000): "Equity Undervaluation and Decisions Related to Repurchase Tender Offers: An Empirical Investigation" *The Journal Of Finance* Vol. LV, No. 5 pp 2399-2422

Ernst & Young's *Mergers and Acquisitions* (2002) Ed. D Thayer

Ferran, E. (1999): *Company Law and Corporate Finance* (Oxford University Press)

Grullon, G. and Ikenberry, D.L. (2000): "What do we Know about Stock Repurchases?" *Journal of Applied Corporate Finance* Volume 13, Number 1 pp 31-51

Grullon, G. and Michaely, R. (2004): "The Information Content of Share Repurchase Programs" *The Journal of Finance* Vol. LIX, No. 2 pp 651-678

Gup, BE and Nam, D (2001): "Stock Buybacks, Corporate Performance and EVA" *Journal of Applied Corporate Finance* Volume 14, Number 1 pp 99-110

Hair, J.F, Babin, B, Money, A.H and Samouel, P (2003): *Essentials of Business Research Methods* (Leyh Publishing)

Ikenberry, D, Lakonishok J and Vermaelen, T (1995): "Market Underreaction to Open Market Share Repurchases" *Journal of Financial Economics* Volume 39, Issues 2-3 pp 181-208

Ikenberry, D, Lakonishok, J and Vermaelen,T (2000): "Stock Repurchases in Canada: Performance and Strategic Trading" *The Journal of Finance* Vol. LV, No. 5 (Oct 2000) pp 2373-2397

Lie, E. and Lie, H.J. (1999): "The Role of Personal Taxes in Corporate Decisions: An Empirical Analysis of Share Repurchases and Dividends" *Journal of Financial and Quantitative Analysis* Vol. 34, No. 4 pp 533-551

Masulis, R. (1980): "Stock Repurchases by Tender Offer: An Analysis of the Causes of Common Stock Price Changes" *The Journal of Finance* Vol. XXV, No. 2 pp 305- 325

McNally, W. (1998): "Who wins in Large Stock Buybacks – Those Who Sell or Those Who Hold?" *Journal of Applied Corporate Finance* Volume 11, Number 1 pp78-88

Rabinowitz, I.M. (1999): "Share Buybacks: A South African Perspective" M Comm. Dissertation, University of the Witwatersrand

Stephens, C.P. and Weisbach, M.S (1998): "Actual Share Acquisitions in Open-Market Repurchase Programs" *The Journal of Finance* Vol. LIII, No. 1

Trichardt, A. Organ, K and Cilliers, J (1989): The Purchase by a Company of its Own Shares *Transactions of the Centre for Business Law, No.10* (U.O.F.S.)

Van den Honert, R.C, Barr, G.D.I, Affleck-Graves, J.F. and Smale G (1988): "Merger Announcements and Share Price Returns – the Role of the Relationship Between Acquiring and Target Firms" *South African Journal of Business Management* Vol. 19, No. 1 pp 2-13

Vermaelen, T (1981): "Common Stock Repurchases and Market Signalling" *Journal of Financial Economics* Volume 9, Issue 2 pp 139-183

## Appendix A Companies

Name of Company	Abbreviation
Acuity Group Holdings Ltd	Acuity
AECI Ltd*	AECI
AMB holdings Ltd	AMB
Aquila Growth Ltd*	Aquila
Aspen Pharmacare Holdings Ltd*	Aspen
Autoquip Group Ltd	Autoquip
Barnard Jacobs Mellet Holdings Ltd*	BJM
BoE Ltd	BoE
Brandcorp Holdings Ltd*	Brandcorp
Capitec Bank Holdings Ltd	Capitec
CCN Holdings Ltd	CCN
Cape Empowerment Trust Ltd	CEP
Chester Investment Holdings Ltd	Chester
Connection Group Holdings Ltd*	Connection
Control Instruments Ltd*	Control
Cullinan Holdings Ltd*	Cullinan
Dalys Ltd	Dalys
Distribution and Warehousing Network Ltd*	DAWN
Digicore Holdings Ltd	Digicore
Electronic Media Network Ltd	EMN
Fortune Beverages Ltd	Fortune
Global Village Ltd	Global Village
Gold Reef Casino Resorts Ltd*	Gold Reef
Grindrod Ltd	Grindrod
Grintek Ltd	Grintek
Hosken Consolidated Investments Ltd*	Hosken

Indequity Group Ltd	Indequity
Investec Group Ltd*	Investec
Invicta Holdings Ltd*	Invicta
Iota Financial Services Ltd	Iota
LA Group Ltd	LA Group
Moribo Leisure Ltd*	Moribo
Murray and Roberts Holdings Ltd*	M& R
Mustek Ltd*	Mustek
Netactive Ltd	Netactive
Network Healthcare Holdings Ltd*	Netcare
Onelogix Group Ltd	Onelogix
Ozz Ltd	Ozz
Paracon Holdings Ltd*	Paracon
Peregrine Holdings Ltd*	Peregrine
PSG Group Ltd*	PSG
Purple Capital Ltd*	Purple
Quyn Holdings Ltd*	Quyn
Rand Leases Properties Ltd	Rand Leases
Shoprite Holdings Ltd*	Shoprite
Seardel Investment Corporation Ltd	Seardel
Transpaco Ltd*	Transpaco
UCS Group Ltd*	UCS
Zarara Energy Ltd	Zarara

\* Indicates that the company was included in the sample for purposes of the second research objective as well as the first

## Appendix B

		ACUTY	AECI	AMB	AQUILA 1	AQUILA 2	ASPEN 1	ASPEN 2	AUTOQUIP	BJM
1	Enhance the company's earnings per share		X				X			X
2	Enhance the company's net asset value per share		X		X					X
3	Create, minimise or enhance value for shareholder									
4	Distribute / deploy current cash resources effectively / more efficient utilisation of cash									
5	Enable or facilitate exit of disinvesting shareholder		X					X		
6	Increase return on shareholders' equity		X		X					
7	Shares held by share incentive trust surplus to requirements									
8	Dispose of shares held by share incentive scheme to comply with JSE Requirements			X						
9	In anticipation of, or to facilitate, winding up					X				
10	Facilitate introduction of BEE participant							X		
11	Remove uncertainty regarding shareholder's involvement in company									
12	Termination of strategic alliance									
13	Settlement of claim by company against shareholder									
14	Capitalise on opportunity presented by shareholder's disposal of investment in company		X							
15	Reduce cost of capital		X							
16	Reduce the discount at which ordinary shares are trading relative to its underlying value				X					
17	Comply with undertaking to underpin value of shares by repurchasing at set price									
18	Take advantage of low share price									
19	Stabilise share price									
20	Resolve a dispute between company and shareholder									
21	Unlock shareholder value for departing shareholders									
22	Repurchase in the best interests of company and shareholders									
23	Eliminate N shares									
24	Shares trading at discount									
25	Termination or contraction of share incentive scheme due to value of shares being lower than purchase / current price									
26	Eliminate cross-holding									
27	Facilitate a clearer focus on the company's future		X							
28	Other / Reason not specified	X							X	X

## Appendix B (ctd)

		BoE	BRANDCORP	CAPITEC	CCN	CEP	CHESTER	CONNECTION	CONTROL	CULLINAN
1	Enhance the company's earnings per share							X	X	
2	Enhance the company's net asset value per share									
3	Create, minimise or enhance value for shareholder								X	
4	Distribute / deploy current cash resources effectively / more efficient utilisation of cash									
5	Enable or facilitate exit of disinvesting shareholder								X	
6	Increase return on shareholders' equity							X		
7	Shares held by share incentive trust surplus to requirements									
8	Dispose of shares held by share incentive scheme to comply with JSE Requirements			X						
9	In anticipation of, or to facilitate, winding up						X			
10	Facilitate introduction of BEE participant									
11	Remove uncertainty regarding shareholder's involvement in company									
12	Termination of strategic alliance				X					
13	Settlement of claim by company against shareholder									
14	Capitalise on opportunity presented by shareholder's disposal of investment in company									
15	Reduce cost of capital									
16	Reduce the discount at which ordinary shares are trading relative to its underlying value									
17	Comply with undertaking to underpin value of shares by repurchasing at set price									X
18	Take advantage of low share price									
19	Stabilise share price									
20	Resolve a dispute between company and shareholder									
21	Unlock shareholder value for departing shareholders									
22	Repurchase in the best interests of company and shareholders									
23	Eliminate N shares									
24	Shares trading at discount									
25	Termination or contraction of share incentive scheme due to value of shares being lower than purchase / current price									
26	Eliminate cross-holding	X								
27	Facilitate a clearer focus on the company's future									
28	Other / Reason not specified		X			X				

### Appendix B (ctd)

		DALYS	DAWN 1	DAWN2	DIGICORE	EMN	FORTUNE	GLOBAL VILLAGE	GOLD REEF	GRINDROD
1	Enhance the company's earnings per share				X					X
2	Enhance the company's net asset value per share									X
3	Create, minimise or enhance value for shareholder			X				X	X	
4	Distribute / deploy current cash resources effectively / more efficient utilisation of cash				X	X	X			
5	Enable or facilitate exit of disinvesting shareholder									
6	Increase return on shareholders' equity				X					
7	Shares held by share incentive trust surplus to requirements									
8	Dispose of shares held by share incentive scheme to comply with JSE Requirements									
9	In anticipation of, or to facilitate, winding up									
10	Facilitate introduction of BEE participant									X
11	Remove uncertainty regarding shareholder's involvement in company									
12	Termination of strategic alliance									
13	Settlement of claim by company against shareholder									
14	Capitalise on opportunity presented by shareholder's disposal of investment in company									
15	Reduce cost of capital									
16	Reduce the discount at which ordinary shares are trading relative to its underlying value									
17	Comply with undertaking to underpin value of shares by repurchasing at set price									
18	Take advantage of low share price		X							
19	Stabilise share price			X						
20	Resolve a dispute between company and shareholder							X		
21	Unlock shareholder value for departing shareholders									
22	Repurchase in the best interests of company and shareholders									
23	Eliminate N shares									
24	Shares trading at discount									
25	Termination or contraction of share incentive scheme due to value of shares being lower than purchase / current price									
26	Eliminate cross-holding									
27	Facilitate a clearer focus on the company's future									
28	Other / Reason not specified	X								

## Appendix B (ctd)

		GRINTEK	HOSKEN	INDEQUITY	INVESTEC	INVICTA	IOTA	LA GROUP 1	LA GROUP 2	MORIBO
1	Enhance the company's earnings per share						X	X	X	
2	Enhance the company's net asset value per share							X	X	
3	Create, minimise or enhance value for shareholder									
4	Distribute / deploy current cash resources effectively / more efficient utilisation of cash									
5	Enable or facilitate exit of disinvesting shareholder									
6	Increase return on shareholders' equity									
7	Shares held by share incentive trust surplus to requirements									
8	Dispose of shares held by share incentive scheme to comply with JSE Requirements			X						
9	In anticipation of, or to facilitate, winding up									
10	Facilitate introduction of BEE participant									
11	Remove uncertainty regarding shareholder's involvement in company									
12	Termination of strategic alliance									
13	Settlement of claim by company against shareholder									X
14	Capitalise on opportunity presented by shareholder's disposal of investment in company									
15	Reduce cost of capital									
16	Reduce the discount at which ordinary shares are trading relative to its underlying value									
17	Comply with undertaking to underpin value of shares by repurchasing at set price									
18	Take advantage of low share price									
19	Stabilise share price									
20	Resolve a dispute between company and shareholder									
21	Unlock shareholder value for departing shareholders		X							
22	Repurchase in the best interests of company and shareholders					X				
23	Eliminate N shares								X	
24	Shares trading at discount									
25	Termination or contraction of share incentive scheme due to value of shares being lower than purchase / current price									
26	Eliminate cross-holding									
27	Facilitate a clearer focus on the company's future									
28	Other / Reason not specified						X			

### Appendix B (ctd)

		M & R	MUSTEK	NETACTIVE	NETCARE	ONELOGIX	OZZ	PARACON 1	PARACON 2	PEREGRINE	PSG
1	Enhance the company's earnings per share					X	X	X	X		
2	Enhance the company's net asset value per share						X				
3	Create, minimise or enhance value for shareholder							X	X		
4	Distribute / deploy current cash resources effectively / more efficient utilisation of cash	X				X					
5	Enable or facilitate exit of disinvesting shareholder										
6	Increase return on shareholders' equity										
7	Shares held by share incentive trust surplus to requirements										
8	Dispose of shares held by share incentive scheme to comply with JSE Requirements										
9	In anticipation of, or to facilitate, winding up										
10	Facilitate introduction of BEE participant										
11	Remove uncertainty regarding shareholder's involvement in company							X		X	
12	Termination of strategic alliance			X							
13	Settlement of claim by company against shareholder										
14	Capitalise on opportunity presented by shareholder's disposal of investment in company										
15	Reduce cost of capital										
16	Reduce the discount at which ordinary shares are trading relative to its underlying value										
17	Comply with undertaking to underpin value of shares by repurchasing at set price										
18	Take advantage of low share price										
19	Stabilise share price										
20	Resolve a dispute between company and shareholder										
21	Unlock shareholder value for departing shareholders										
22	Repurchase in the best interests of company and shareholders										
23	Eliminate N shares										
24	Shares trading at discount	X									
25	Termination or contraction of share incentive scheme due to value of shares being lower than purchase/current price										X
26	Eliminate cross-holding										
27	Facilitate a clearer focus on the company's future										
28	Other / Reason not specified		X		X						

### Appendix B (ctd)

		PURPLE 1	PURPLE 2	QUYN 1	QUYN 2	RAND LEASES	SEARDEL	SHOPRITE	TRANSPACO	UCS	ZARARA
1	Enhance the company's earnings per share					X	X				
2	Enhance the company's net asset value per share						X				X
3	Create, minimise or enhance value for shareholder										
4	Distribute / deploy current cash resources effectively / more efficient utilisation of cash	X									
5	Enable or facilitate exit of disinvesting shareholder				X	X					
6	Increase return on shareholders' equity										
7	Shares held by share incentive trust surplus to requirements							X		X	X
8	Dispose of shares held by share incentive scheme to comply with JSE Requirements										
9	In anticipation of, or to facilitate, winding up										
10	Facilitate introduction of BEE participant										
11	Remove uncertainty regarding shareholder's involvement in company							X			
12	Termination of strategic alliance										
13	Settlement of claim by company against shareholder								X		
14	Capitalise on opportunity presented by shareholder's disposal of investment in company										
15	Reduce cost of capital										
16	Reduce the discount at which ordinary shares are trading relative to its underlying value										
17	Comply with undertaking to underpin value of shares by repurchasing at set price										
18	Take advantage of low share price										
19	Stabilise share price										
20	Resolve a dispute between company and shareholder										
21	Unlock shareholder value for departing shareholders										
22	Repurchase in the best interests of company and shareholders										
23	Eliminate N shares										
24	Shares trading at discount										
25	Termination or contraction of share incentive scheme due to value of shares being lower than purchase/current price		X								
26	Eliminate cross-holding										
27	Facilitate a clearer focus on the company's future										
28	Other / Reason not specified			X							

**Appendix C**  
**Summaries of Repurchases**

NAME OF COMPANY	AECI	AQUILA (1)	ASPEN (1)	BJM
ANNOUNCEMENT	11 DEC 2000	2 MAR 2001	30 MAR 2001	10 OCT 2001
TYPE OF OFFER	SPECIFIC	<i>PRO RATA</i>	SPECIFIC	SPECIFIC
CANCELLED / TREASURY	BOTH	BOTH	TREASURY	UNSTATED
PERCENTAGE TARGETED	40%	17.668%	5.1%	6.6%
PRICE	MARKET	PREMIUM OF 13.64%	DISCOUNT OF 3.6%	DISCOUNT OF 18.5% TO NAV
DIRECTORS' INTEREST	LESS THAN 1%	27.8% ORD; 100% ORD A	55.10%	49.2%

NAME OF COMPANY	BRANDCORP	CONNECTION	CONTROL	CULLINAN
ANNOUNCEMENT	23 APR 2002	20 SEPT 2002	6 DEC 2002	27 MAR 2001
TYPE OF OFFER	SPECIFIC	<i>PRO RATA</i>	SPECIFIC	SPECIFIC
CANCELLED / TREASURY	BOTH	CANCELLED	BOTH	CANCELLED
PERCENTAGE TARGETED	43.7%	10%	13.6%	6.85%
PRICE	PREMIUM OF 13%	MARKET	PREMIUM OF 2% WEIGHTED AVERAGE	PREMIUM OF 900%
DIRECTORS' INTEREST	17.44%	6.15%*	19.9%	66.83%

NAME OF COMPANY	DAWN (2)	GOLD REEF	HOSKEN	INVESTEC
ANNOUNCEMENT	26 JUNE 2002	20 MAR 2002	14 NOVEMBER 2002	22 APRIL 2002
TYPE OF OFFER	SPECIFIC	<i>PRO RATA</i>	<i>PRO RATA</i>	SPECIFIC
CANCELLED / TREASURY	BOTH	TREASURY	CANCELLED	CANCELLED
PERCENTAGE TARGETED	32.88%	8%	75%	0.61%
PRICE	PREMIUM OF 21.6% TO 29.7%	PREMIUM OF 20%	PREMIUM OF 15.9%	PREMIUM OF 33.7%
DIRECTORS' INTEREST	9.41%	UNSPECIFIED	2.72%	1.78%

## Appendix C (ctd)

NAME OF COMPANY	INVICTA	MORIBO	M & R	MUSTEK
ANNOUNCEMENT	27 MAY 2003	20 FEB 2003	18 DEC 2000	16 JAN 2003
TYPE OF OFFER	SPECIFIC	SPECIFIC	SPECIFIC	PRO RATA
CANCELLED / TREASURY	BOTH	CANCELLED	CANCELLED	CANCELLED
PERCENTAGE TARGETED	23%	5.48%	4.1%	10%
PRICE	DISCOUNT OF 2.49% WEIGHTED AVERAGE	MARKET (WEIGHTED AVERAGE)	PREMIUM OF 4%	MARKET
DIRECTORS' INTEREST	50%	4.68%	LESS THAN 1%	26.43%

NAME OF COMPANY	NETCARE	PARACON (2)	PEREGRINE	PSG
ANNOUNCEMENT	20 NOV 2002	14 NOV 2001	25 MAY 2001	9 FEB 2001
TYPE OF OFFER	SPECIFIC	SPECIFIC	SPECIFIC	SPECIFIC
CANCELLED / TREASURY	TREASURY	BOTH	TREASURY	CANCELLED
PERCENTAGE TARGETED	39%	5%	10%	9.03%
PRICE	UNSPECIFIED PREMIUM	DISCOUNT OF 41%	DISCOUNT OF 9.6%	PREMIUM OF 190%
DIRECTORS' INTEREST	11.7%	23%	14.6%	16.2%

NAME OF COMPANY	PURPLE CAP (1)	PURPLE CAP (2)	QUYN HOLDINGS	SHOPRITE
ANNOUNCEMENT	20 APRIL 2000	13 JUNE 2002	1 JULY 2002	4 OCT 2001
TYPE OF OFFER	SPECIFIC	SPECIFIC	SPECIFIC	SPECIFIC
CANCELLED / TREASURY	BOTH	CANCELLED	BOTH	BOTH
PERCENTAGE TARGETED	31.31%	9.48%	14%	13.36%
PRICE	PREMIUM OF 20.8%	MARKET	DISCOUNT OF 2.6%	PREMIUM OF 107%
DIRECTORS' INTEREST	4.2%	38.73%	13.95%	15.39%

**Appendix C (ctd)**

<b>NAME OF COMPANY</b>	<b>TRANSPACO</b>	<b>UCS</b>
<b>ANNOUNCEMENT</b>	8 DEC 2000	27 FEB 2003
<b>TYPE OF OFFER</b>	SPECIFIC	SPECIFIC
<b>CANCELLED /TREASURY</b>	TREASURY	CANCELLED
<b>PERCENTAGE TARGETED</b>	7.96%	11.54%
<b>PRICE</b>	PREMIUM OF 25.9%	MARKET
<b>DIRECTORS' INTEREST</b>	57.93%	44%

University of Cape Town







## Appendix D2

### CARs from Announcement Date

Days from Announcement	AECI	AQUILA	ASPEN	BJM	BRANDCORP	CONNECTION	CONTROL	CULLINAN	DAWN	GOLD REEF
0	0	0	0	0	0	0	0	0	0	0
1	9.97%	-0.10%	8.53%	-1.18%	-3.71%	-5.09%	-0.24%	-0.91%	-0.36%	3.66%
2	13.22%	6.21%	8.57%	-1.16%	2.23%	-8.07%	-0.47%	-2.64%	-0.72%	3.63%
3	12.86%	6.09%	7.41%	1.02%	-0.47%	-6.24%	-0.76%	-2.49%	-1.00%	3.37%
4	11.12%	5.04%	7.08%	1.03%	-4.78%	-6.35%	-1.00%	-2.61%	-1.29%	0.27%
5	12.87%	4.91%	6.75%	1.13%	4.30%	-6.24%	-1.12%	21.89%	6.65%	0.17%
6	12.66%	5.71%	1.18%	-0.76%	4.63%	-6.54%	-1.32%	0.82%	11.30%	-0.77%
7	12.97%	4.75%	4.56%	-0.26%	3.47%	-1.56%	-1.58%	24.45%	8.54%	-1.06%
8	11.74%	4.66%	4.56%	-2.61%	2.84%	-1.61%	-9.80%	4.12%	8.20%	-0.90%
9	11.20%	4.51%	7.95%	-4.61%	2.59%	-6.87%	-4.69%	2.92%	5.50%	-3.14%
10	8.85%	6.34%	7.78%	-4.56%	1.90%	-9.38%	-4.95%	-23.53%	5.30%	-1.24%
11	9.81%	5.96%	5.46%	-4.50%	1.45%	-9.71%	-5.27%	42.00%	5.05%	-1.93%
12	11.69%	6.62%	8.17%	-0.17%	5.11%	-7.20%	-5.50%	21.40%	4.77%	0.95%
13	11.63%	5.56%	13.58%	-2.24%	4.94%	-1.97%	-5.62%	20.20%	-8.03%	-1.29%
14	12.45%	6.46%	15.90%	-4.22%	4.46%	-2.81%	-4.87%	18.58%	0.22%	0.59%
15	11.36%	5.69%	17.94%	-3.77%	8.17%	-5.46%	-5.09%	17.75%	-13.30%	0.13%
16	11.38%	7.31%	18.89%	-4.19%	7.50%	-3.62%	-4.33%	16.46%	13.64%	-0.14%
17	10.80%	4.64%	18.92%	-4.15%	7.24%	-3.47%	-3.51%	16.22%	3.89%	-0.72%
18	11.83%	5.51%	19.01%	-4.10%	7.06%	-3.73%	-2.84%	15.27%	19.53%	-1.23%
19	12.22%	6.03%	23.06%	-4.01%	6.72%	-3.96%	-3.16%	14.06%	17.11%	-1.44%
20	14.24%	7.69%	23.75%	-3.55%	6.43%	-1.69%	-3.42%	12.91%	9.96%	-0.85%
21	15.33%	7.49%	19.10%	0.33%	6.23%	0.19%	-4.68%	11.35%	9.52%	-1.21%
22	11.71%	6.69%	19.06%	0.34%	5.86%	2.20%	-4.89%	10.73%	-0.70%	-5.51%
23	14.81%	5.64%	23.80%	8.46%	5.71%	6.54%	-5.13%	-14.89%	-0.97%	-5.70%
24	19.88%	5.38%	28.13%	12.35%	5.52%	6.50%	-3.41%	-15.71%	-1.36%	-6.08%
25	18.64%	5.15%	29.67%	12.35%	5.34%	10.49%	-3.68%	-16.66%	9.61%	-2.61%
26	20.54%	9.14%	34.93%	12.47%	6.56%	10.50%	-3.91%	-17.22%	9.32%	-6.74%
27	20.46%	5.37%	35.25%	14.53%	5.38%	10.34%	-2.82%	-17.49%	9.13%	-7.39%
28	19.72%	9.52%	40.30%	18.13%	5.00%	7.79%	0.97%	-18.07%	8.93%	-4.25%
29	21.35%	6.34%	40.56%	19.90%	4.77%	6.96%	1.69%	-18.65%	8.51%	-9.37%
30	24.50%	6.32%	38.20%	25.00%	4.43%	4.79%	1.56%	-19.74%	8.12%	-10.11%
40	21.41%	9.33%	41.42%	17.21%	8.83%	2.12%	-6.61%	37.77%	-13.64%	-13.44%
60	20.94%	26.58%	39.42%	2.04%	3.21%	-12.08%	-26.54%	71.79%	4.30%	-21.31%
80	20.93%	19.35%	47.95%	4.68%	-0.34%	-2.68%	-29.79%	65.73%	7.58%	-16.86%
100	29.13%	15.47%	49.15%	5.46%	23.49%	-17.67%	-37.22%	105.01%	20.19%	-18.87%
120	28.88%	13.88%	48.31%	32.06%	21.53%	-10.42%	-38.03%	89.49%	30.66%	-5.42%
140	28.41%	7.97%	43.60%	27.60%	20.74%	-14.55%	-33.79%	21.52%	24.97%	-11.31%
160	23.88%	9.95%	53.75%	31.08%	27.02%	-13.61%	-43.37%	-3.05%	26.69%	-30.26%
180	17.29%	12.74%	32.86%	28.01%	23.65%	-17.42%	-22.61%	31.89%	36.71%	-31.56%
200	11.13%	-3.75%	35.68%	26.86%	5.21%	-7.01%	-14.37%	46.86%	33.74%	-27.02%
220	-0.33%	2.92%	49.79%	21.91%	22.98%	-7.11%	-5.72%	127.17%	29.02%	-38.25%
240	16.38%	-7.98%	50.68%	25.65%	9.78%	-0.80%	-0.09%	69.78%	39.80%	-37.89%
260	14.55%	-9.79%	55.91%	41.75%	12.05%	-0.56%	1.73%	120.33%	31.02%	-29.99%
280	15.64%	-7.08%	57.01%	22.80%	9.25%	11.16%	-2.14%	120.62%	31.02%	-25.92%
300	13.52%	-1.47%	57.45%	24.68%	3.24%	20.82%	-5.16%	102.14%	49.53%	-23.92%
320	27.02%	2.55%	54.41%	30.28%	16.07%	16.26%	-1.26%	88.24%	25.03%	-15.75%
340	24.59%	-1.32%	48.45%	31.62%	14.42%	18.79%	-13.58%	118.73%	39.31%	-7.10%
360	24.15%	-10.70%	44.47%	31.61%	8.50%	9.53%	-19.34%	129.00%	54.49%	-10.27%
380	26.65%	-11.77%	40.59%	35.29%	19.00%	9.22%	-3.62%	130.67%	59.26%	-7.58%
400	24.95%	-11.75%	51.66%	29.00%	25.50%	-4.32%	0.83%	108.96%	66.56%	-8.85%
420	21.26%	-8.89%	57.13%	19.76%	30.17%	-5.64%	7.30%	78.49%	62.48%	-1.62%

## Appendix D2 (ctd)

Days from Announcement	HOSKEN	INVESTEC	INVICTA	MORIBO	M&R	MUSTEK	NETCARE	PARACON	PEREGRINE	PSG
0	0	0	0	0	0	0	0	0	0	0
1	-0.11%	-4.20%	-10.27%	56.73%	2.17%	-0.20%	-0.36%	16.33%	-2.67%	3.92%
2	4.63%	-5.74%	-10.36%	56.51%	9.04%	-0.17%	-0.13%	14.13%	0.38%	4.03%
3	4.55%	-7.00%	-10.70%	56.60%	3.24%	-0.37%	-0.58%	7.68%	0.53%	2.45%
4	4.46%	-8.96%	-11.04%	56.62%	2.90%	0.23%	0.18%	8.46%	-4.21%	1.20%
5	4.80%	-11.26%	-11.17%	56.13%	-0.42%	-0.22%	0.17%	6.15%	-7.51%	-1.09%
6	6.57%	-11.73%	-2.05%	55.63%	-0.05%	-0.20%	-0.12%	1.59%	-3.18%	-3.08%
7	5.63%	-10.95%	-2.26%	55.26%	5.64%	-16.85%	-0.40%	4.74%	-6.32%	-4.79%
8	5.60%	-12.39%	-2.71%	55.26%	11.32%	3.71%	-0.87%	9.38%	-4.92%	-5.93%
9	8.67%	-12.71%	-1.23%	55.79%	12.28%	3.32%	-0.37%	10.98%	-4.83%	-1.47%
10	6.76%	-11.85%	-1.48%	55.50%	11.87%	3.54%	-0.43%	11.11%	-4.66%	-1.51%
11	6.63%	-9.31%	-1.66%	46.56%	10.78%	4.00%	-0.48%	11.12%	-0.73%	-2.73%
12	8.32%	-7.97%	-3.25%	46.67%	10.94%	3.33%	-0.88%	9.27%	-2.23%	2.01%
13	8.25%	-7.28%	-3.50%	46.69%	18.57%	3.25%	-1.93%	10.68%	-2.10%	4.44%
14	9.06%	-6.67%	-2.44%	46.43%	17.66%	4.24%	-1.64%	8.99%	0.12%	0.40%
15	8.10%	-8.48%	-2.61%	45.44%	16.02%	3.77%	-0.24%	8.17%	-1.38%	-0.36%
16	8.04%	-9.26%	-2.87%	44.85%	13.03%	3.93%	-0.12%	4.23%	-1.89%	2.11%
17	7.93%	-9.09%	-2.99%	44.53%	11.75%	3.32%	-0.48%	-0.60%	-1.59%	-5.92%
18	7.89%	-7.91%	-3.01%	43.62%	13.38%	3.31%	-0.43%	-0.36%	6.90%	-8.85%
19	7.81%	-6.87%	-2.93%	43.51%	15.76%	4.20%	-1.29%	13.48%	7.17%	-10.48%
20	7.72%	-6.04%	-2.93%	43.90%	15.66%	3.69%	-1.09%	7.62%	-0.26%	-15.68%
21	9.83%	-6.39%	-3.02%	43.67%	15.25%	4.21%	-0.62%	1.28%	-0.08%	-15.96%
22	8.73%	-6.85%	-6.04%	43.59%	15.24%	4.32%	-0.65%	-5.56%	-1.23%	-13.87%
23	9.51%	-5.66%	-6.18%	53.67%	15.23%	4.76%	-0.92%	-2.02%	0.10%	-16.22%
24	9.43%	-5.28%	-6.05%	53.32%	15.20%	4.50%	-0.82%	-5.41%	-1.51%	-16.04%
25	9.35%	-5.76%	-6.40%	53.28%	14.97%	4.06%	0.36%	-6.07%	0.35%	-17.54%
26	9.24%	-5.43%	-6.98%	52.93%	16.16%	4.31%	0.41%	-5.56%	4.68%	-21.62%
27	9.15%	-5.27%	-7.07%	61.47%	17.49%	4.81%	0.45%	-14.34%	6.84%	-21.53%
28	9.04%	-4.64%	-11.60%	60.63%	15.91%	3.45%	0.50%	-6.49%	2.91%	-15.57%
29	8.95%	-2.65%	-12.15%	60.26%	15.73%	3.70%	0.42%	4.18%	3.06%	-18.61%
30	8.88%	-3.03%	-15.42%	60.18%	19.36%	4.47%	0.34%	-0.83%	1.07%	-18.36%
40	9.99%	-1.02%	-13.73%	57.67%	24.20%	9.37%	0.67%	5.99%	6.06%	-8.90%
60	32.37%	-4.91%	-22.41%	49.99%	36.51%	9.46%	-1.32%	1.08%	-4.31%	12.77%
80	48.21%	-8.49%	-26.18%	132.78%	43.33%	7.53%	1.46%	-0.83%	23.21%	16.24%
100	47.71%	-2.69%	-22.72%	126.79%	47.23%	9.62%	2.07%	0.48%	1.36%	26.40%
120	46.14%	-5.61%	-13.80%	120.65%	49.28%	7.96%	1.61%	6.07%	12.82%	28.64%
140	44.75%	-4.04%	-33.42%	113.57%	56.92%	8.47%	0.27%	23.74%	37.00%	45.22%
160	40.07%	-2.85%	-19.81%	106.66%	46.72%	11.79%	-3.15%	12.62%	34.92%	21.98%
180	38.35%	-4.37%	-14.79%	100.84%	59.44%	12.18%	-3.20%	12.03%	29.08%	18.83%
200	36.17%	-6.34%	-8.40%	94.14%	52.14%	14.12%	-1.41%	9.13%	31.18%	22.93%
220	34.22%	-8.00%	-8.56%	68.74%	54.54%	15.91%	-2.38%	32.89%	24.21%	25.41%
240	31.99%	-4.41%	-12.07%	51.31%	54.20%	16.58%	-4.39%	40.19%	31.84%	24.32%
260	29.96%	-3.59%	-14.53%	48.13%	51.04%	19.32%	-3.86%	44.93%	30.85%	-1.60%
280	27.75%	-4.72%	-13.73%	76.66%	35.89%	26.46%	-4.52%	30.88%	27.24%	-15.46%
300	25.60%	-7.21%	-21.26%	72.62%	36.80%	22.97%	-5.28%	23.76%	26.37%	-1.96%
320	23.58%	-6.53%	-20.19%	82.83%	51.11%	23.64%	-5.66%	29.22%	26.58%	33.11%
340	21.60%	-8.96%	-11.35%	77.25%	56.11%	22.93%	-3.83%	22.99%	40.67%	24.44%
360	19.60%	-7.86%	-10.40%	69.84%	59.21%	20.05%	-3.65%	6.35%	52.60%	23.36%
380	17.61%	-10.24%	-5.10%	23.67%	50.14%	20.00%	-3.35%	25.72%	50.99%	28.05%
400	15.62%	-13.63%	-11.47%	74.88%	46.25%	16.49%	-2.58%	28.78%	57.27%	22.15%
420	13.64%	-17.92%	-3.75%	92.39%	59.62%	15.26%	-2.41%	32.01%	59.59%	19.58%

## Appendix D2 (ctd)

Days from Announcement	PURPLE CAP 1	PURPLE CAP 2	QUYN	SHOPRITE	TRANSPACOGEN	UCS	AVERAGE
0	0	0	0	0	0	0	0
1	0.22%	7.77%	-21.36%	-0.55%	0.30%	-0.34%	1.84%
2	0.03%	-0.47%	-19.23%	1.32%	-3.78%	-0.35%	2.44%
3	-0.37%	23.87%	-20.31%	4.41%	0.24%	-0.50%	3.03%
4	-0.93%	36.68%	-21.73%	3.50%	0.59%	-7.86%	3.57%
5	23.68%	36.02%	-22.81%	6.05%	0.64%	-5.63%	4.04%
6	22.95%	47.19%	-23.03%	6.03%	0.50%	-7.02%	5.84%
7	22.28%	56.84%	-22.30%	6.03%	-0.04%	-6.90%	4.84%
8	21.87%	60.66%	-21.49%	8.28%	-0.65%	-6.82%	5.69%
9	21.74%	60.44%	-22.78%	9.10%	-0.70%	-7.05%	4.80%
10	21.33%	50.72%	-21.88%	9.52%	-1.11%	-7.75%	6.88%
11	13.84%	50.05%	-22.74%	9.26%	1.11%	-16.44%	5.14%
12	13.31%	44.46%	-23.42%	9.18%	0.90%	-7.35%	5.78%
13	12.91%	22.34%	-24.72%	7.52%	2.74%	-7.80%	4.71%
14	12.70%	22.04%	-23.68%	8.97%	2.76%	-7.95%	5.02%
15	11.92%	21.65%	-22.13%	9.00%	3.78%	-7.80%	4.12%
16	11.26%	21.11%	-21.90%	8.93%	4.09%	9.15%	5.77%
17	2.84%	20.33%	-20.42%	8.22%	3.38%	-5.05%	3.62%
18	-5.50%	19.44%	-22.26%	8.89%	3.25%	3.28%	4.54%
19	-5.78%	18.69%	-24.34%	8.27%	2.82%	3.21%	4.88%
20	-6.74%	4.69%	-23.08%	9.10%	2.84%	3.16%	3.48%
21	-6.52%	11.71%	-25.05%	7.52%	2.21%	3.01%	3.59%
22	-7.02%	11.29%	-22.57%	8.98%	-1.81%	2.54%	1.48%
23	-7.09%	32.18%	-22.20%	10.38%	-5.65%	2.14%	3.39%
24	9.46%	43.41%	-20.79%	8.14%	-4.03%	-4.07%	4.49%
25	8.95%	42.55%	-18.33%	8.91%	-4.41%	-4.14%	5.03%
26	8.56%	41.48%	-19.06%	7.87%	-3.88%	-4.82%	5.23%
27	8.50%	29.93%	-20.74%	8.11%	-3.94%	-4.62%	4.73%
28	8.31%	28.83%	-20.96%	8.27%	-4.46%	-6.19%	4.97%
29	8.32%	34.74%	-22.10%	8.18%	-4.58%	2.00%	5.80%
30	0.96%	33.73%	-22.58%	9.07%	-4.24%	1.86%	5.39%
40	-1.85%	16.40%	-56.96%	10.02%	-4.28%	-0.24%	5.38%
60	-11.50%	-5.69%	-69.61%	-1.07%	-4.33%	-12.58%	3.92%
80	-2.11%	7.15%	-112.84%	4.79%	-12.64%	-9.46%	8.22%
100	-0.87%	27.47%	-153.55%	8.21%	-13.90%	-2.03%	9.65%
120	-35.57%	52.43%	57.45%	2.85%	-46.89%	0.79%	18.83%
140	0.61%	50.95%	49.86%	17.87%	-63.08%	10.73%	18.45%
160	-39.64%	47.78%	17.87%	28.76%	-67.67%	2.40%	13.72%
180	-47.59%	4.29%	10.24%	23.88%	-95.64%	23.86%	11.53%
200	-39.54%	-18.56%	-39.62%	14.44%	-93.77%	15.46%	7.50%
220	-63.64%	25.67%	-51.20%	9.08%	-113.51%	22.93%	10.25%
240	-20.02%	3.23%	89.20%	2.39%	-111.21%	16.87%	15.72%
260	-73.42%	-18.40%	84.29%	6.74%	-111.26%	17.72%	13.18%
280	-15.28%	-25.30%	70.40%	8.13%	-54.26%	33.76%	16.84%
300	-99.70%	-2.87%	4.25%	12.68%	-74.14%	20.06%	9.96%
320	-128.91%	-46.59%	-1.24%	10.93%	-74.95%	39.19%	10.75%
340	-205.07%	-44.07%	-46.57%	10.31%	-80.73%	34.44%	6.74%
360	-116.70%	-43.74%	-36.23%	-5.18%	-85.76%	32.59%	8.37%
380	-175.27%	-33.01%	-96.84%	-11.86%	-94.44%	29.29%	3.29%
400	-182.43%	-53.81%	-68.11%	-14.79%	-96.98%	44.79%	4.20%
420	-189.60%	-79.12%	-84.81%	-9.64%	-102.10%	47.99%	2.87%

Appendix E: Graphs

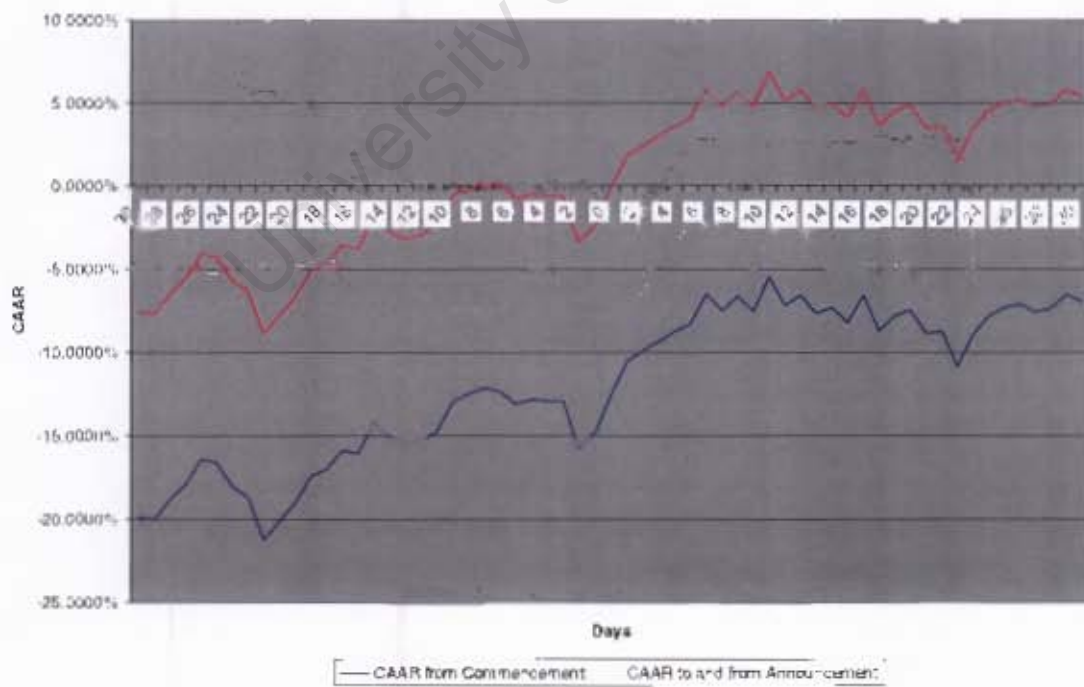
Graph 1

CAAR: Entire observation period



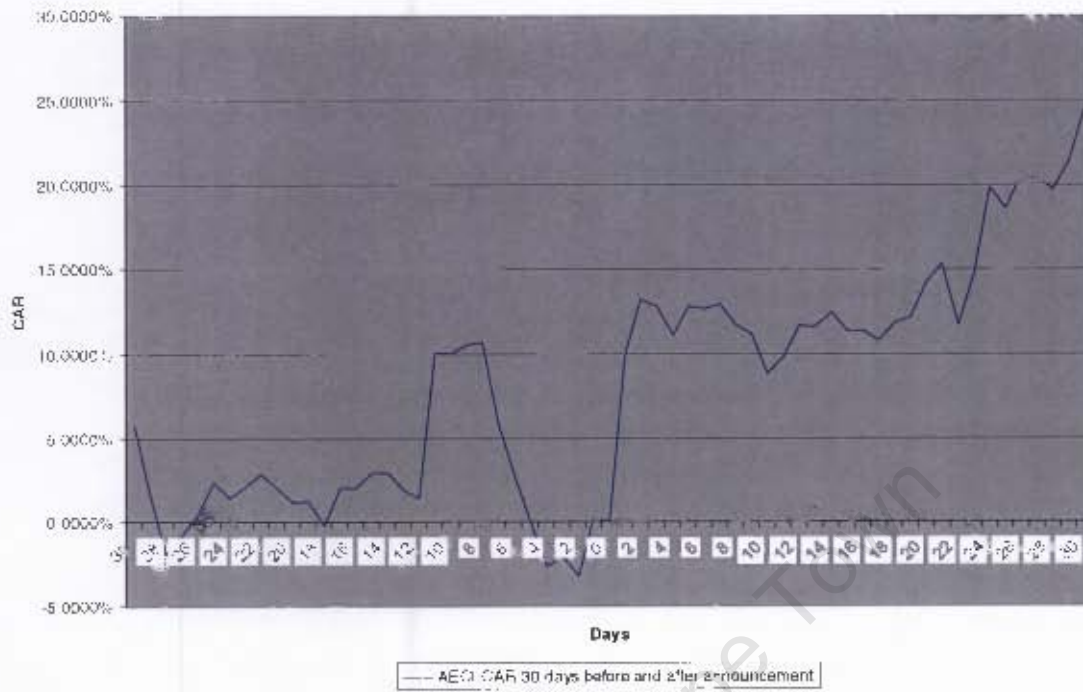
Graph 2

CAAR 30 days before and 30 days after announcement



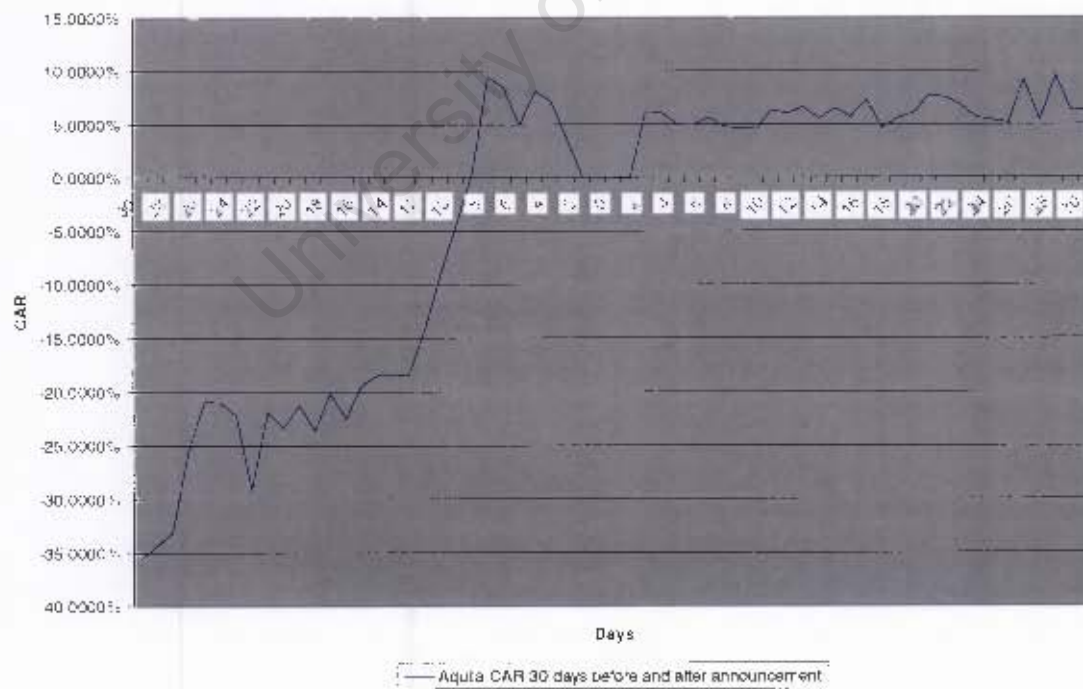
Graph 3

AEDI CAR 30 days before and after announcement



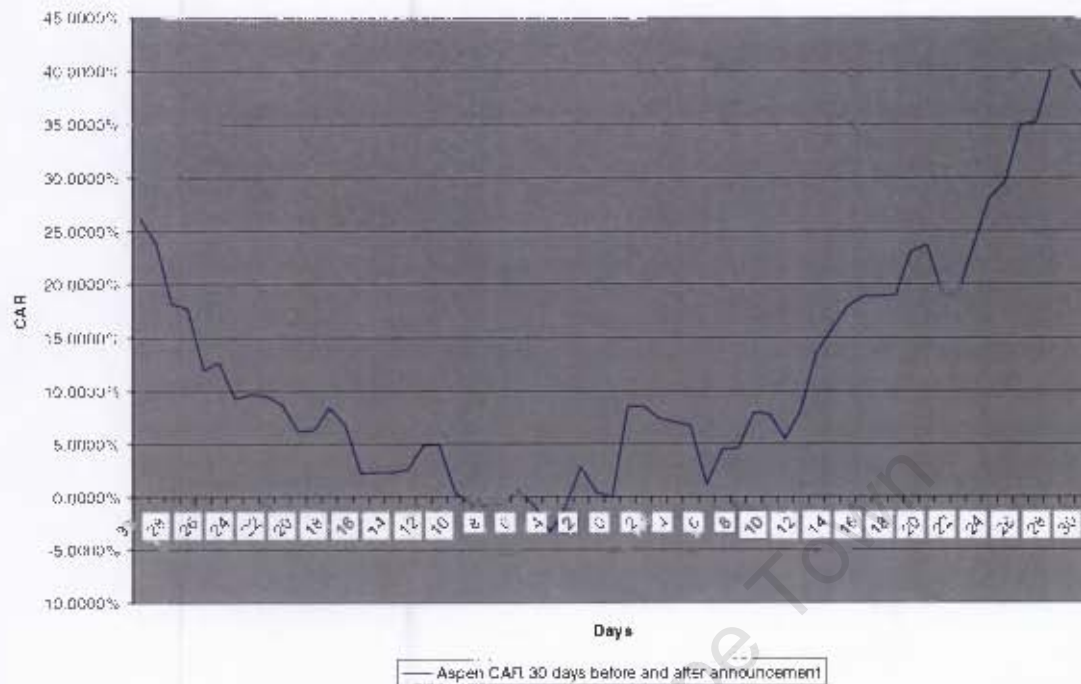
Graph 4

Aqata CAR 30 days before and after announcement



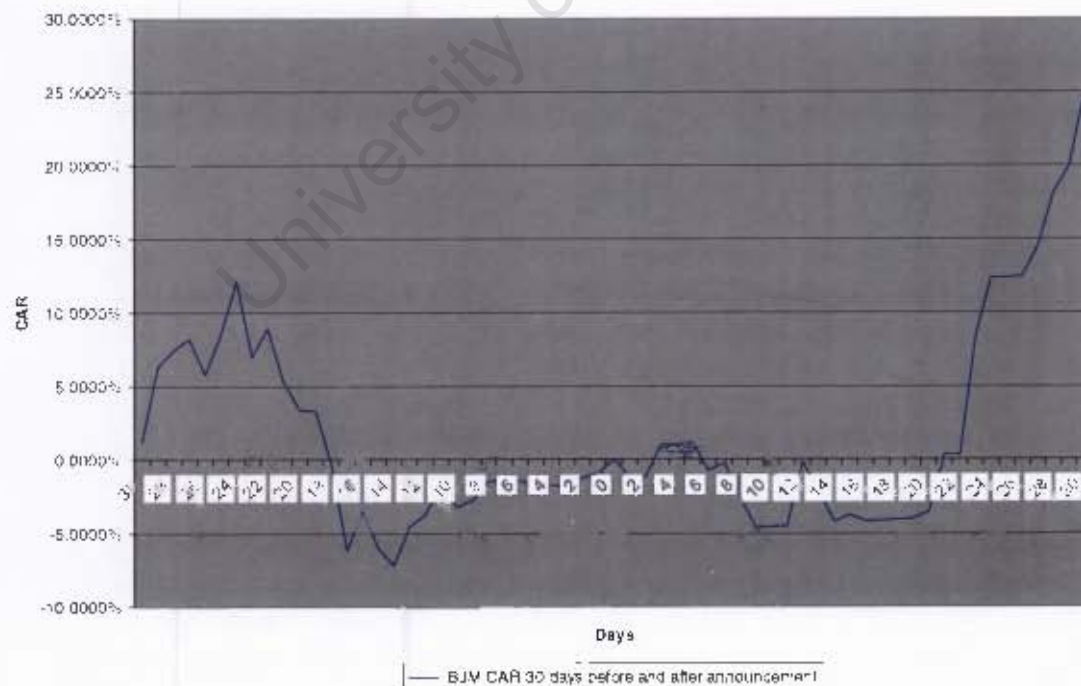
Graph 5

Aspen CAR 30 days before and after announcement



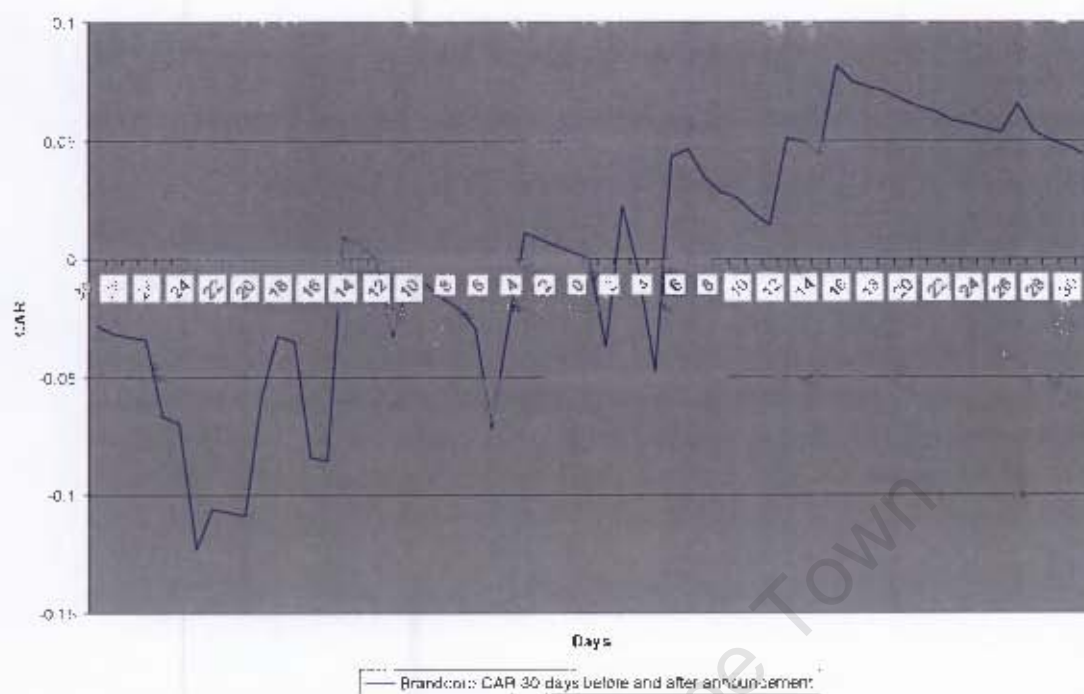
Graph 6

BJV CAR 30 days before and after announcement



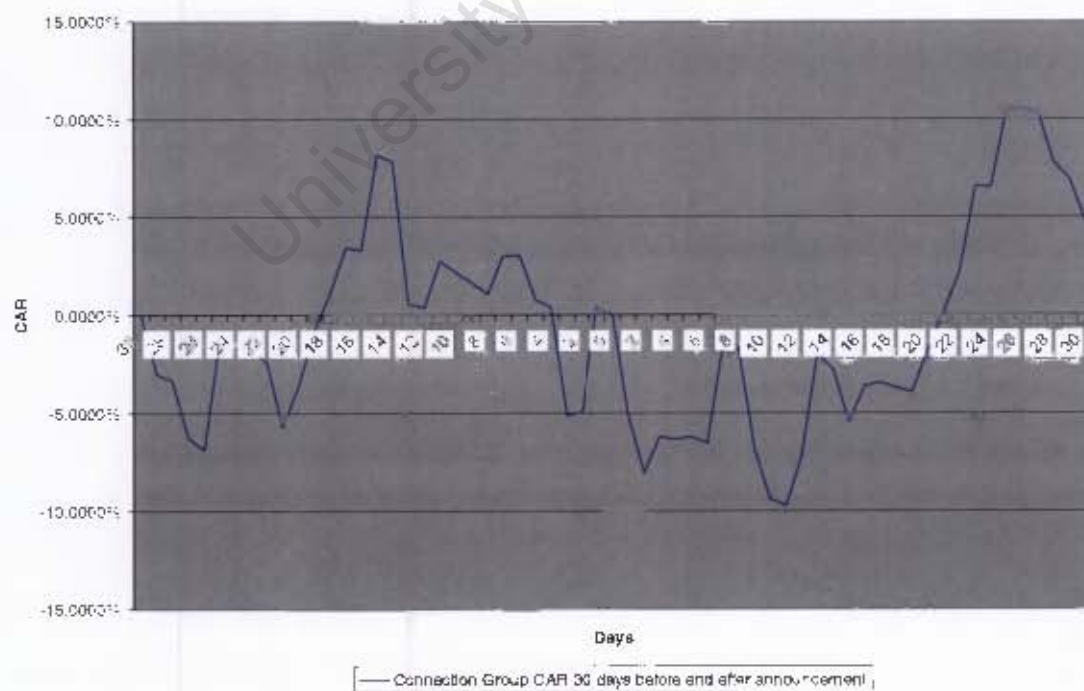
Graph 7

Brandco's CAR 30 days before and after announcement



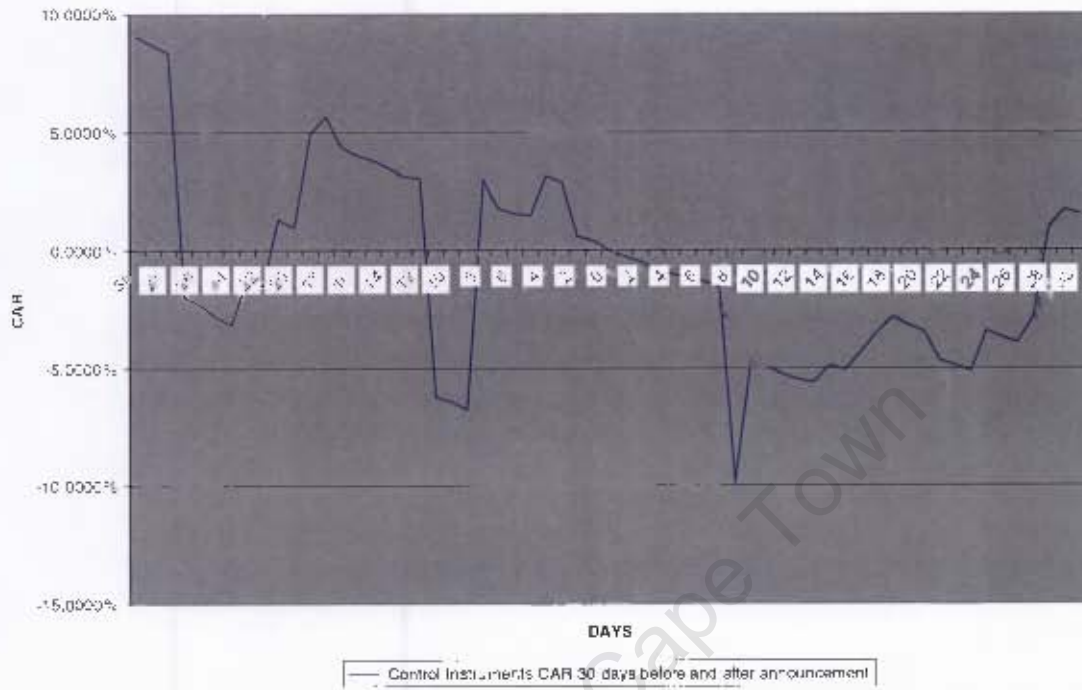
Graph 8

Connection Group CAR 30 days before and after announcement



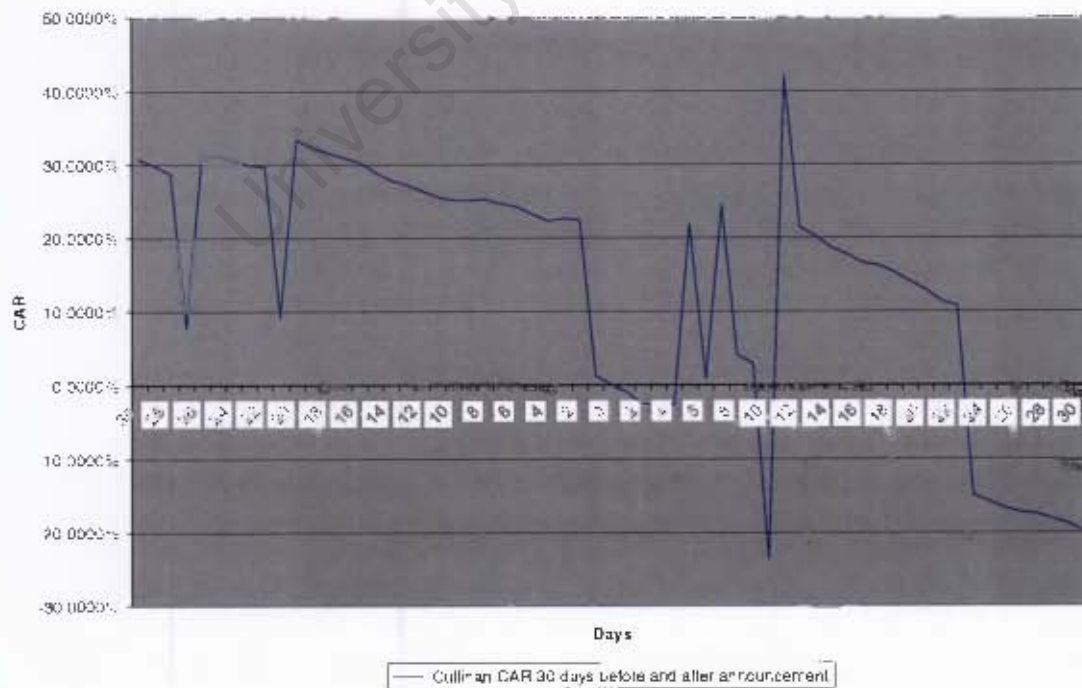
Graph 9

Control Instruments CAR 30 days before and after announcement



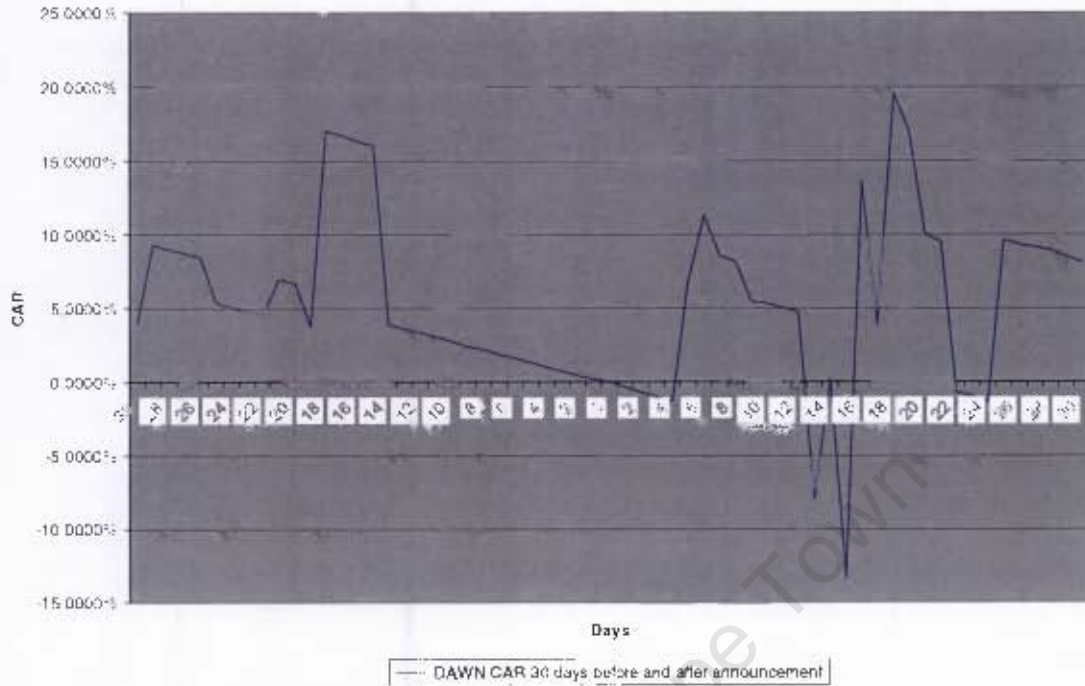
Graph 10

Cullinan CAR 30 days before and after announcement



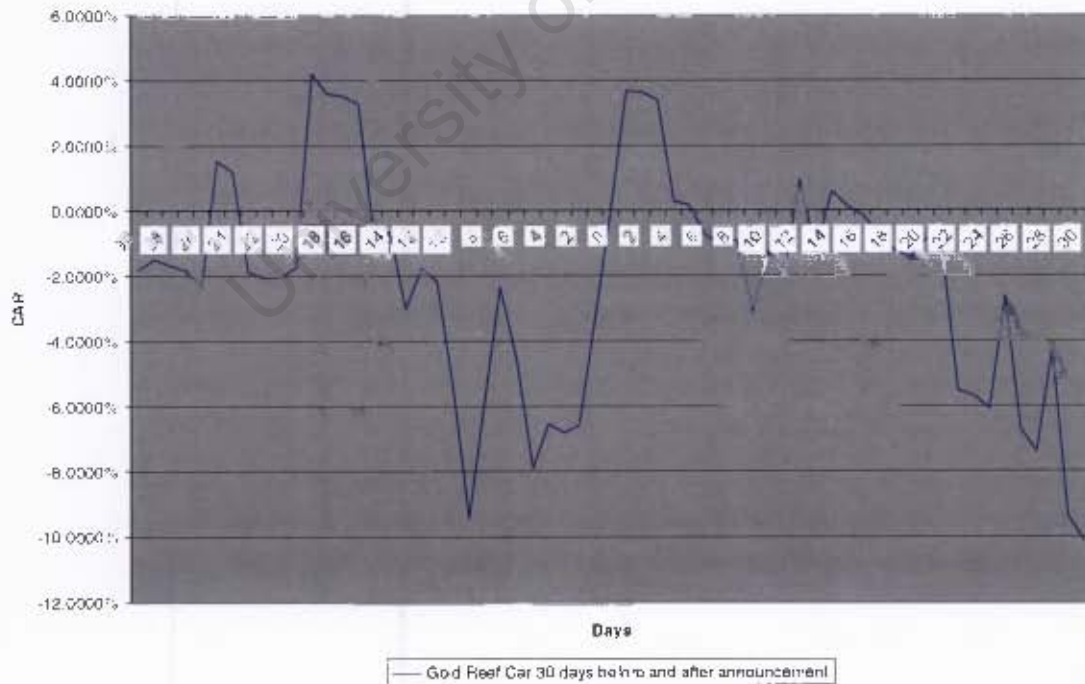
Graph 11

DAWN CAR 30 days before and after announcement



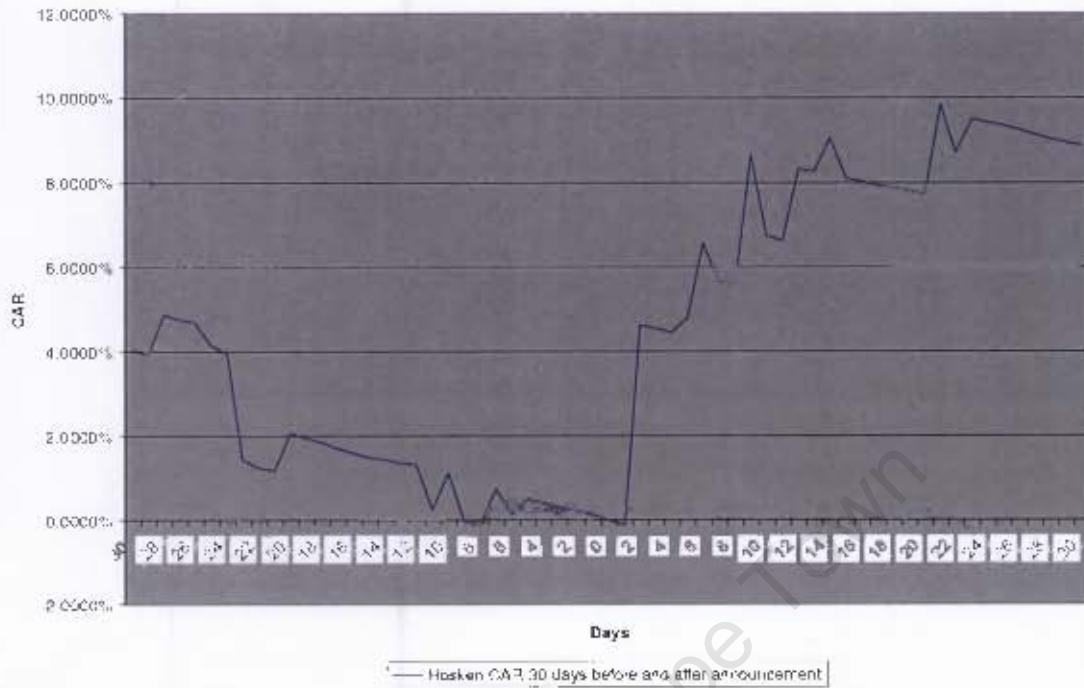
Graph 12

God Reef CAR 30 days before and after announcement



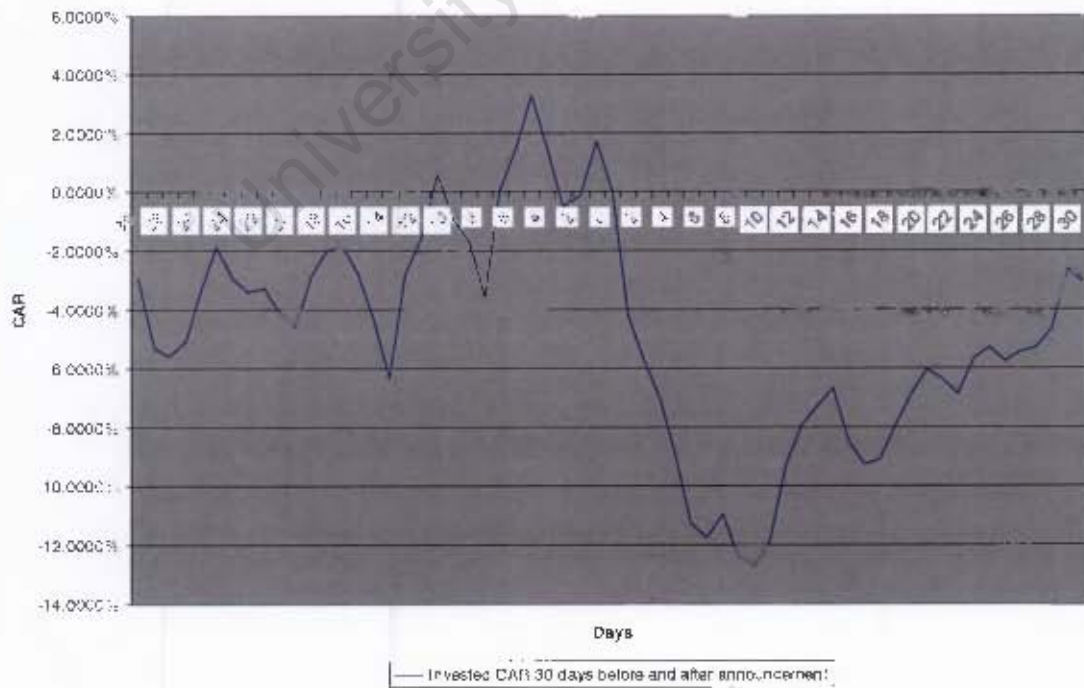
Graph 13

Hosken CAR 30 days before and after announcement



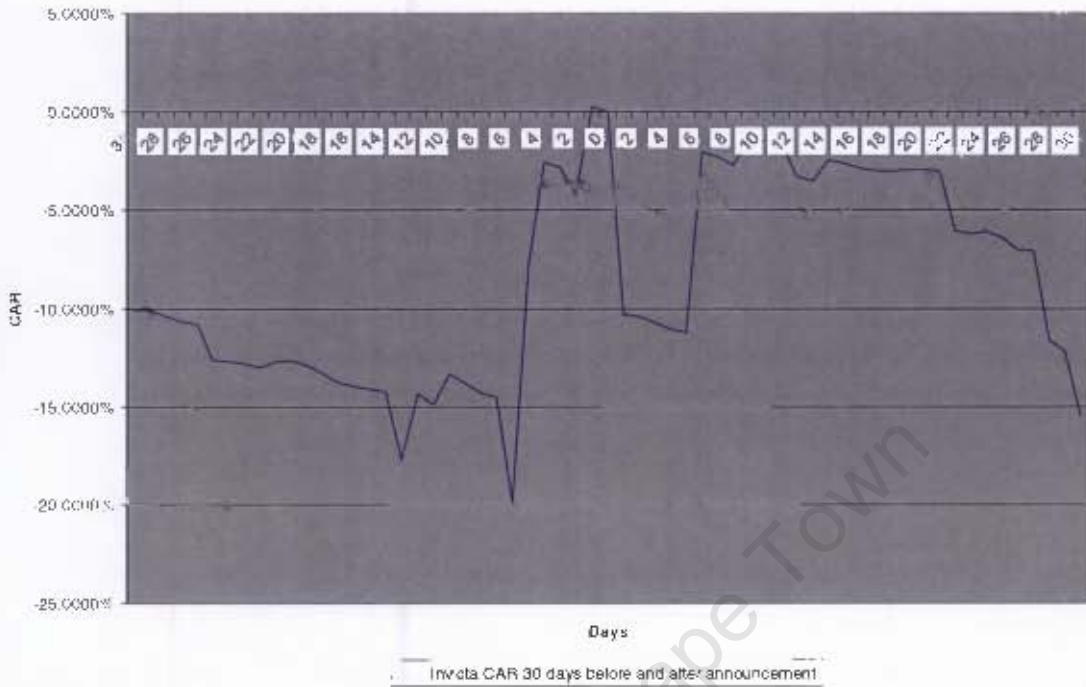
Graph 14

Investec CAR 30 days before and after announcement



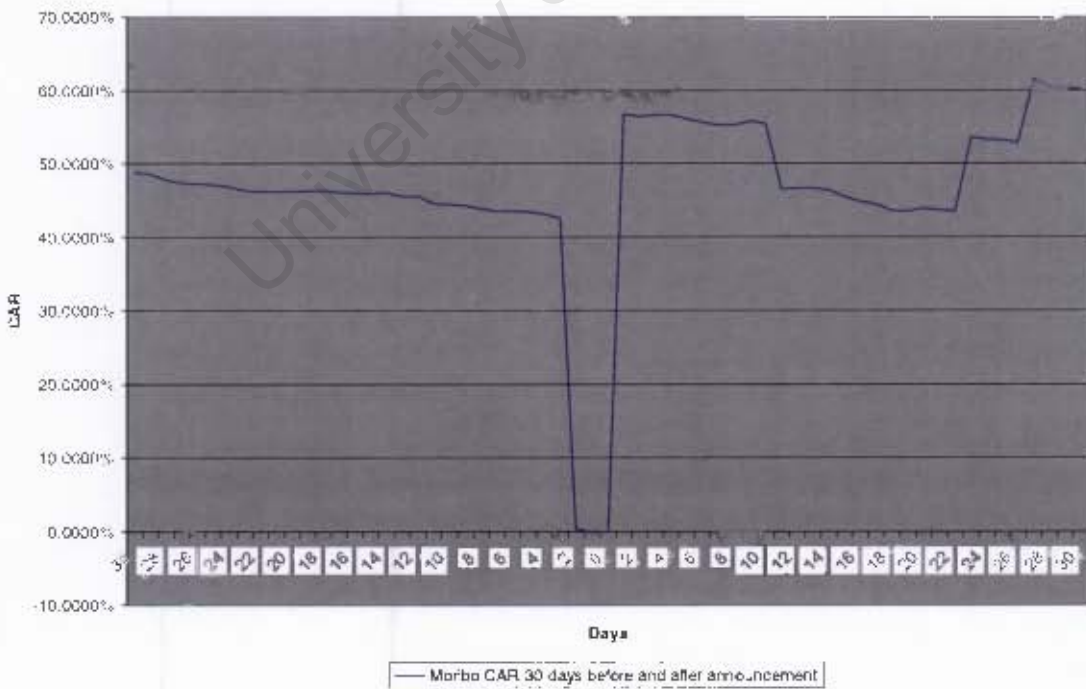
Graph 15

Invidia CAR 30 days before and after announcement



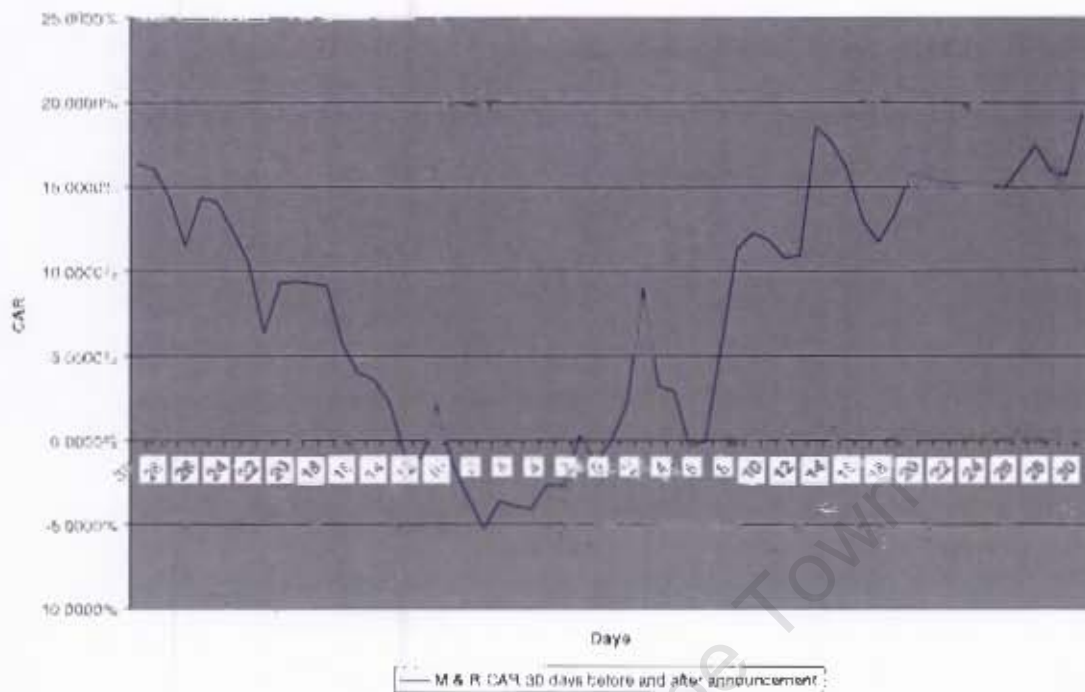
Graph 16

Morbo CAR 30 days before and after announcement



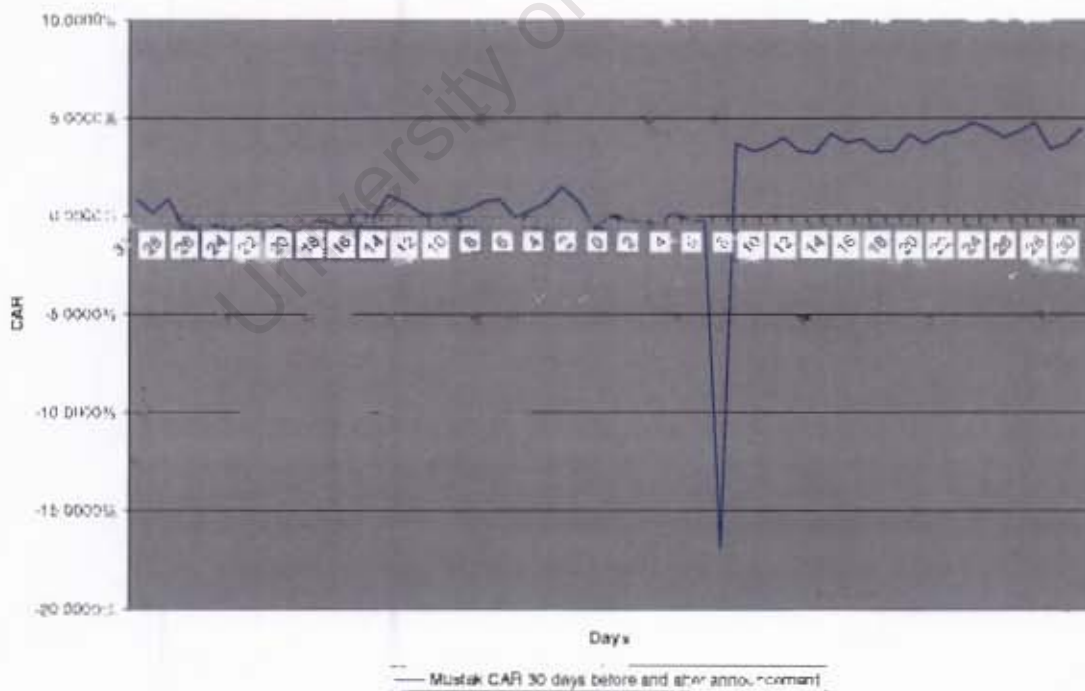
Graph 17

M &amp; R CAR 30 days before and after announcement



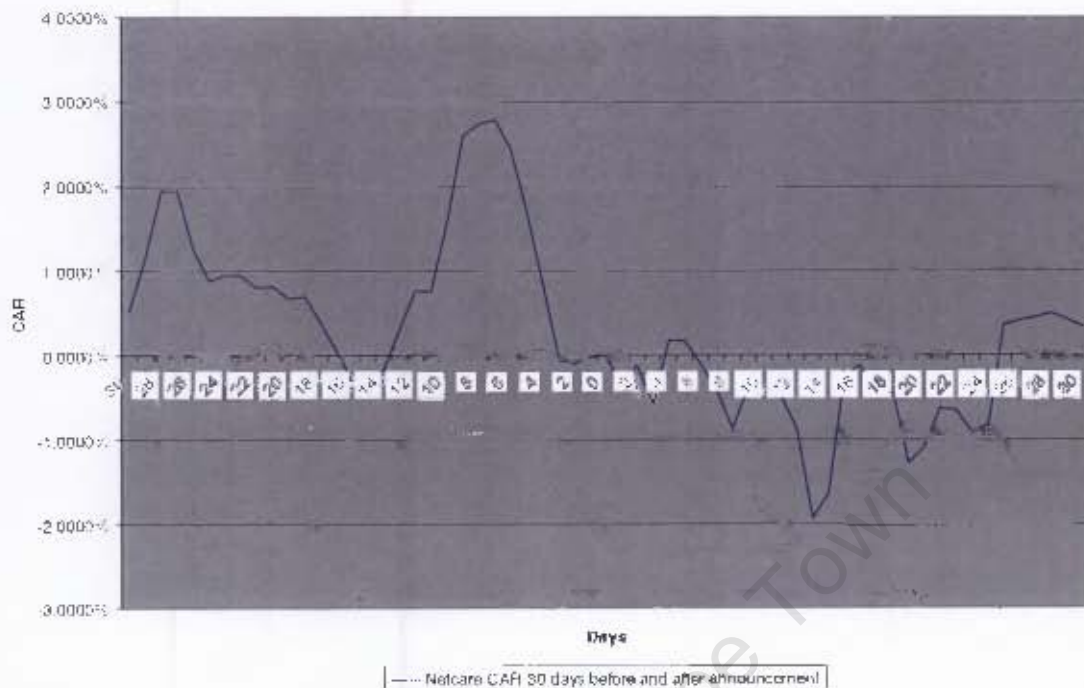
Graph 18

Mustek CAR 30 days before and after announcement



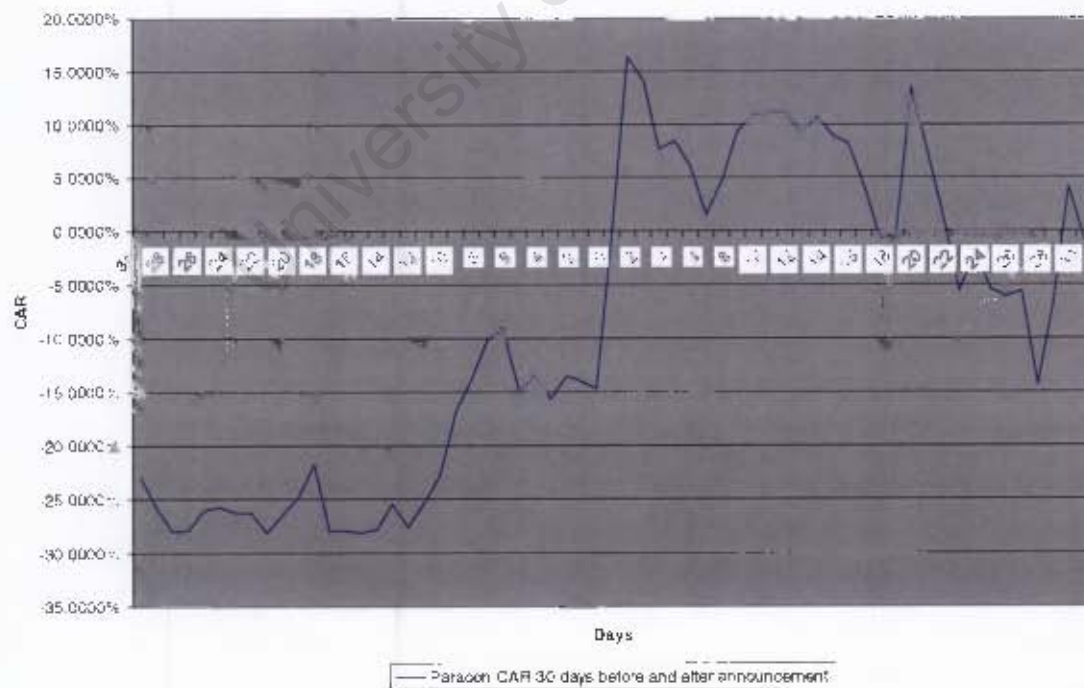
Graph 19

Netcare CAR 30 days before and after announcement



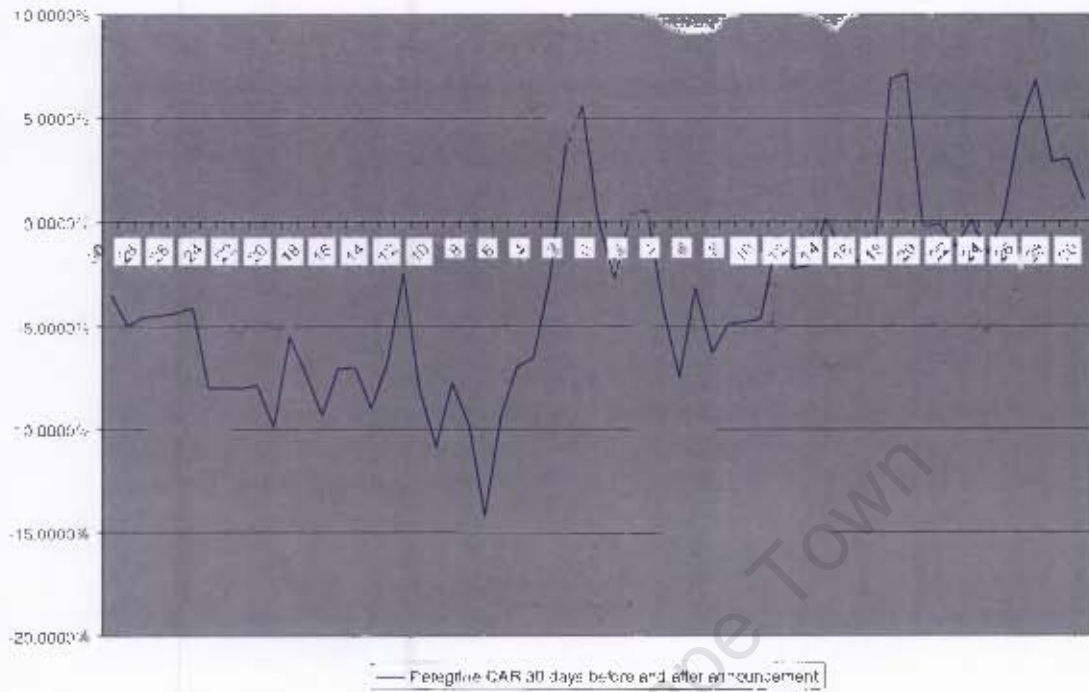
Graph 20

Paracorr CAR 30 days before and after announcement



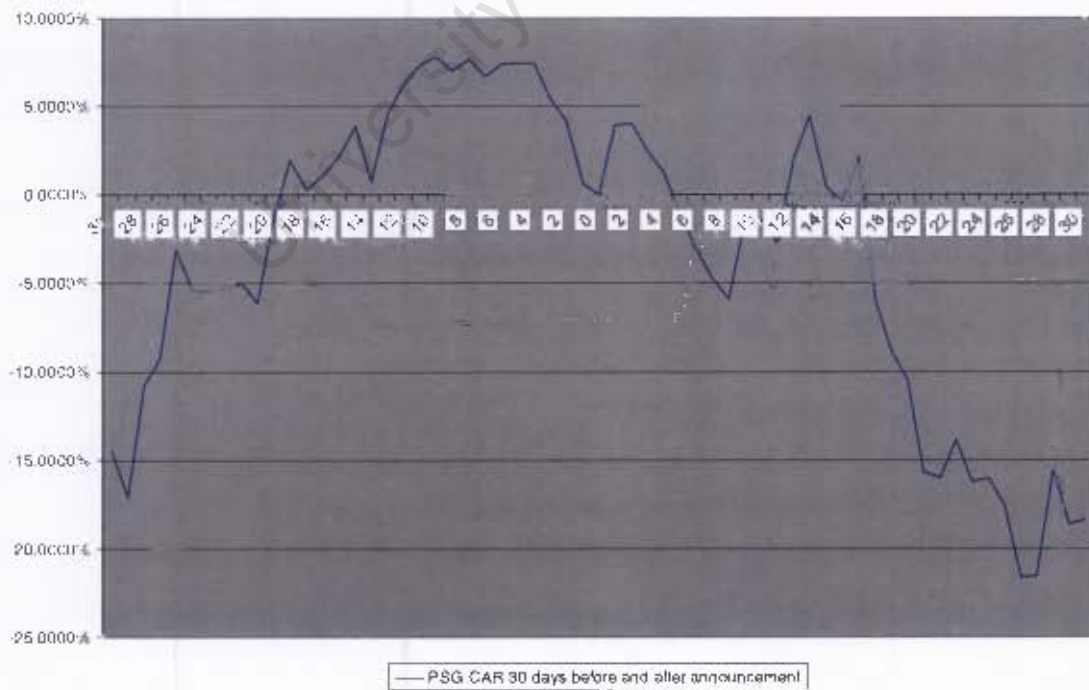
Graph 21

Peragline CAR 30 days before and after announcement:



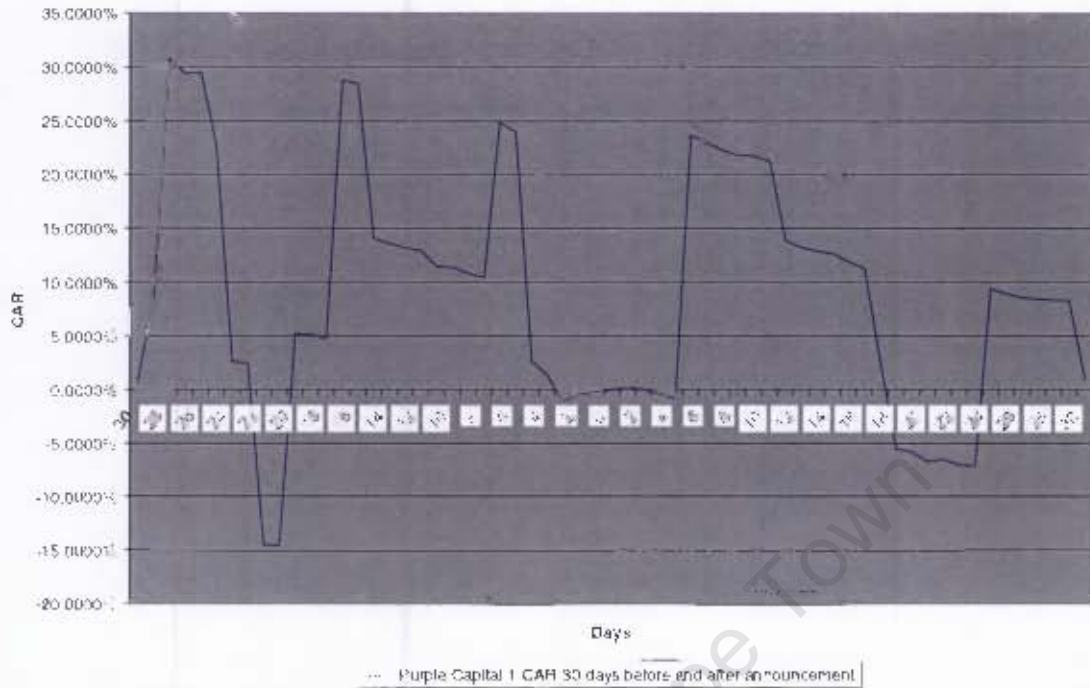
Graph 22

PSG CAR 30 days before and after announcement:



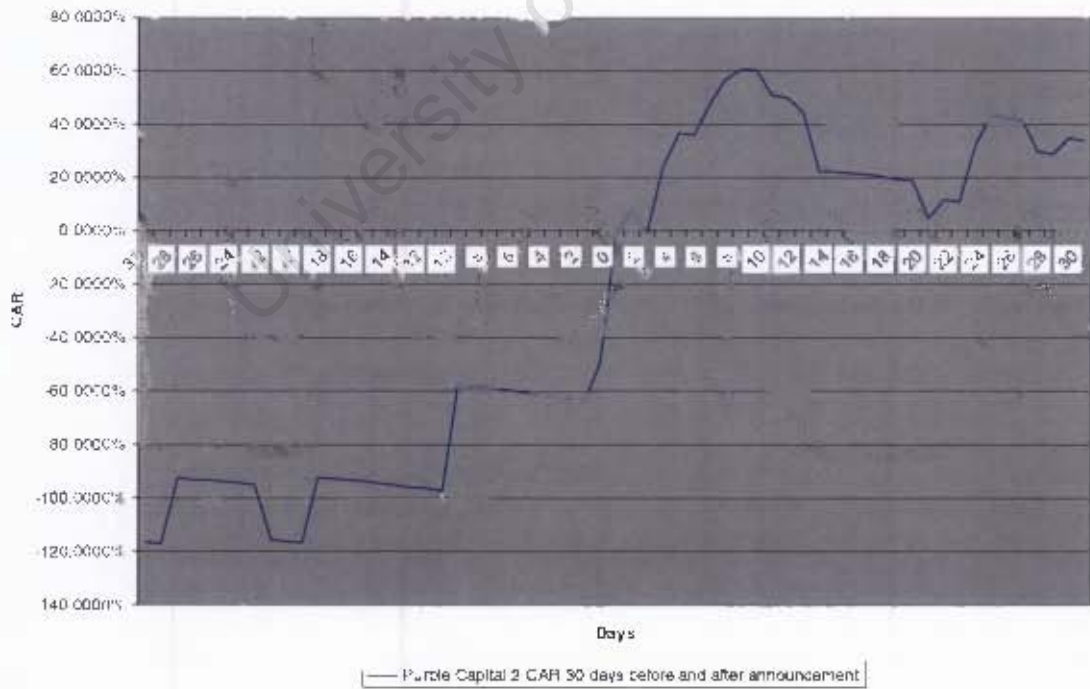
Graph 23

Purple Capital 1 CAR 30 days before and after announcement



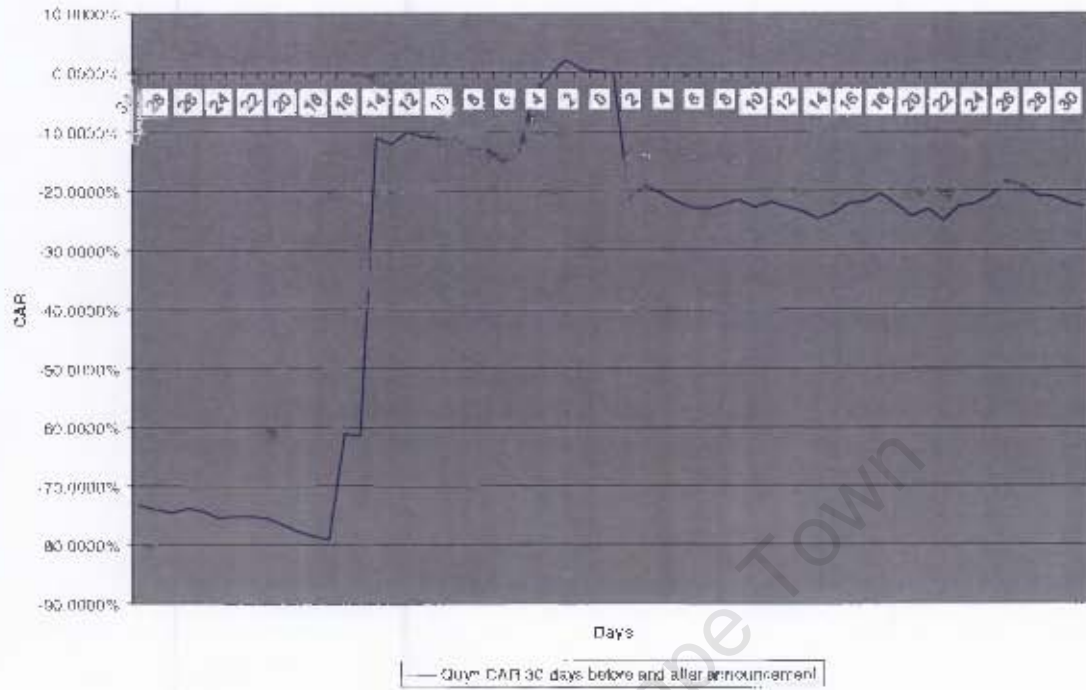
Graph 24

Purple Capital 2 CAR 30 days before and after announcement



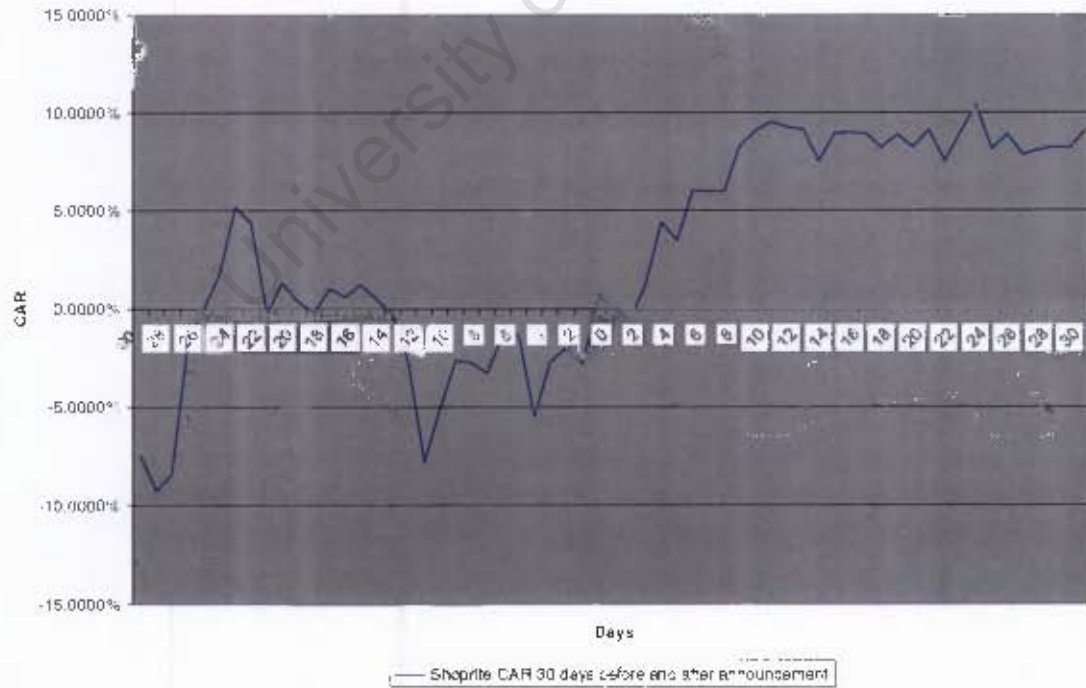
Graph 25

Qum CAR 30 days before and after announcement



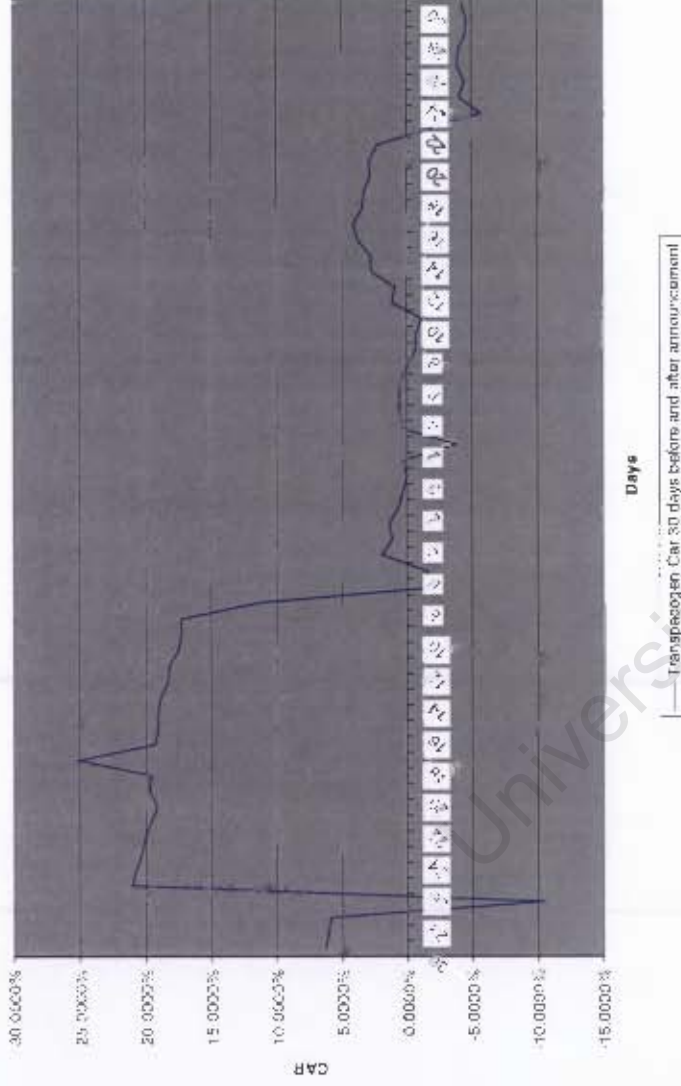
Graph 26

Shoprite CAR 30 days before and after announcement



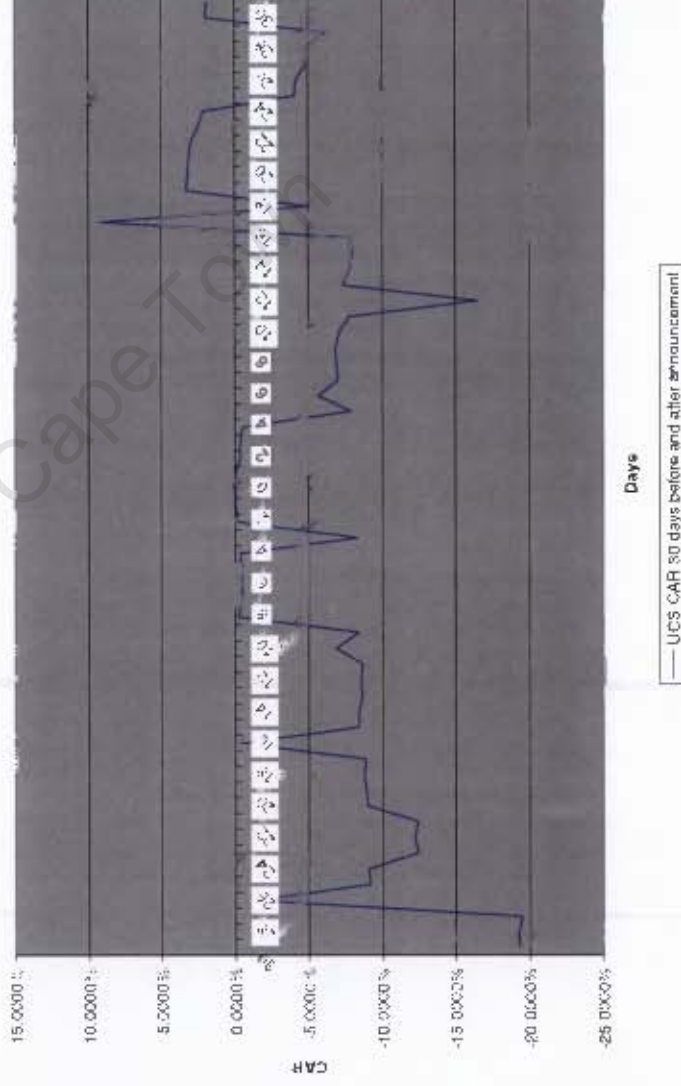
Graph 27

Transpero CAR 30 days before and after announcement



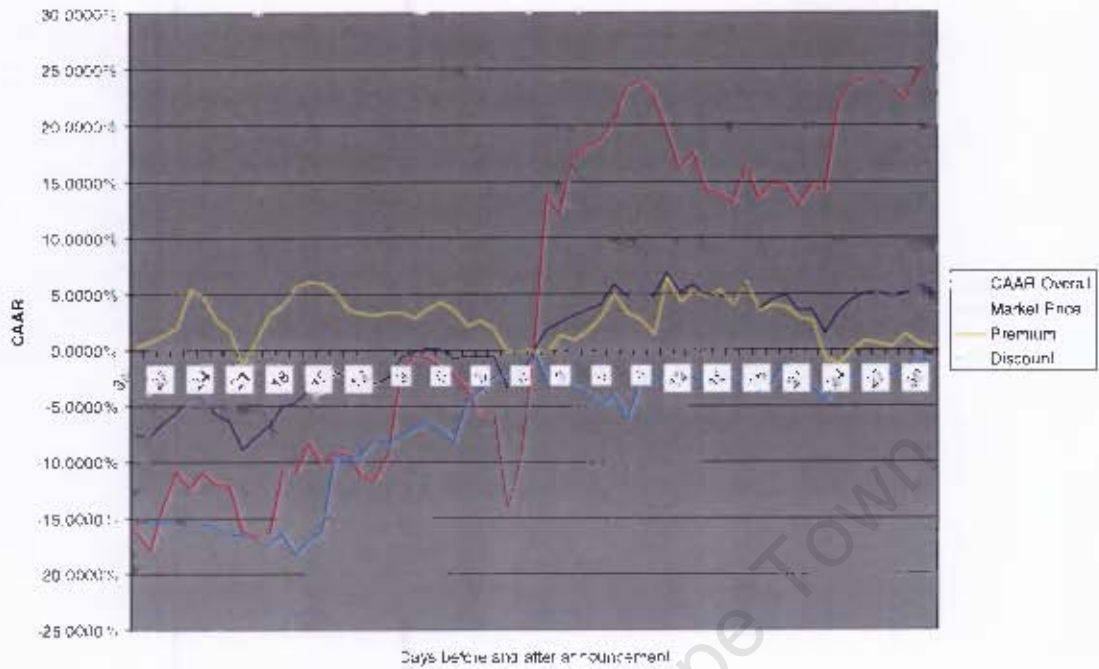
Graph 28

UCS CAR 30 days before and after announcement



Graph 29

CAAR Overall v Price Paid



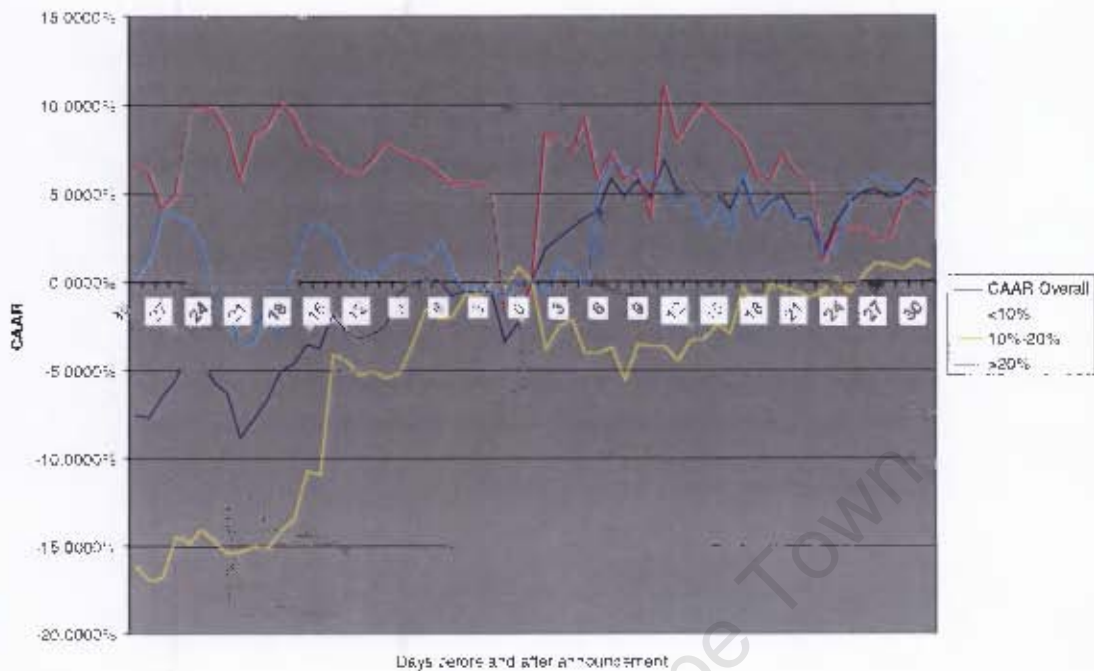
Graph 30

CAAR Overall vs Type of offer



Graph 31

CAAR overall vs Size of repurchase



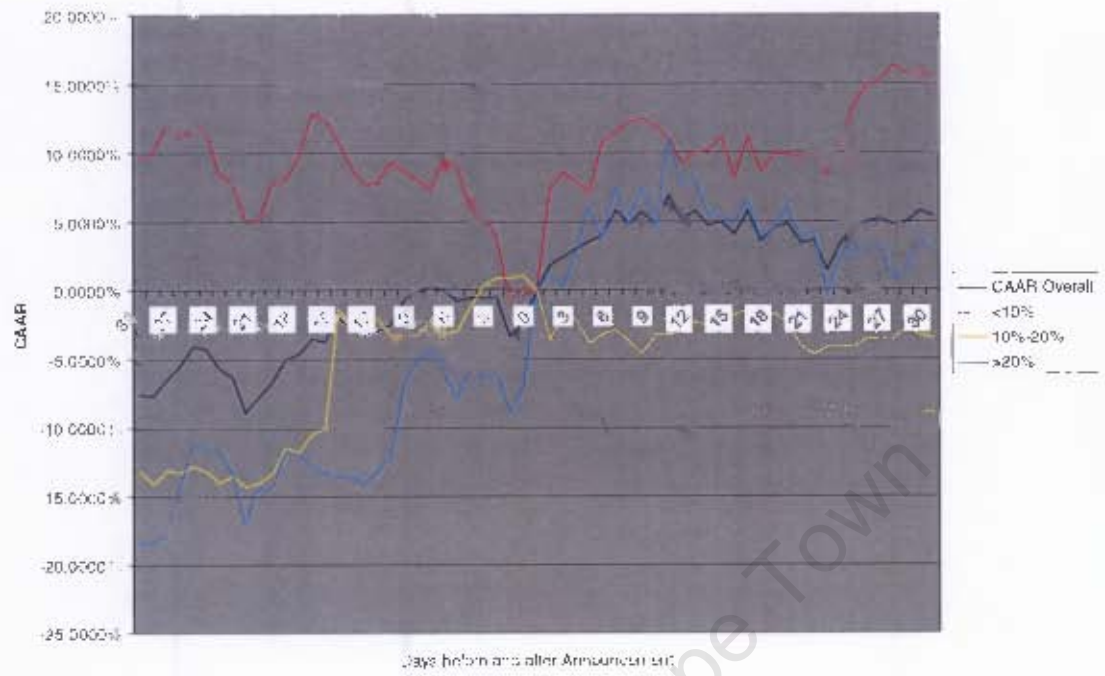
Graph 32

CAAR Overall vs Ratio of shares



Graph 33

CAAR Overall vs Directors' Interest



University of Cape Town

## Appendix F Change in Share Prices

	Share Price at Announcement	Share Price 20 Days After Announcement	Share Price at End of Period	% Increase at 20 Days	% Increase at End of Period
AECI	1145	1350	2565	17.90%	124.02%
Aquila	110	119	160	8.18%	45.45%
Aspen	415	525	657	26.51%	58.31%
BJM	248	236	210	-4.84%	-15.32%
Brandcorp	115	130	500	13.04%	334.78%
Connection	40	41	142	2.50%	255.00%
Control	98	99	245	1.02%	150.00%
Cullinan	4	4	22	0.00%	450.00%
DAWN	37	40	240	8.11%	548.65%
Gold reef	250	261	710	4.40%	184.00%
Hosken	205	225	567	9.76%	176.59%
Investec	16920	16599	12661	-1.90%	-25.17%
Invicta	700	700	1700	0.00%	142.86%
Moribo	7	10	15	42.86%	114.29%
M & R	310	370	1260	19.35%	306.45%
Mustek	10.6	9.6	15.2	-9.43%	43.40%
Netcare	300	302	499	0.67%	66.33%
Paracon	60	64	52	6.67%	-13.33%
Peregrine	250	240	152	-4.00%	-39.20%
PSG	291	244	225	-16.15%	-22.68%
Purple (1)	12	12	6	0.00%	-50.00%
Purple (2)	12	13	5	8.33%	-58.33%
Quyn	10	8	2	-20.00%	-80.00%
Shoprite	613	670	766	9.30%	24.96%
Transpaco	135	145	185	7.41%	37.04%
UCS	65	65	130	0.00%	100.00%