

NESTLÉ LANKA DELISTING: Unveiling Strategic Shifts

CSE: NEST.N0000

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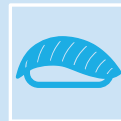
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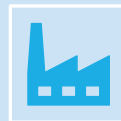
About Nestlé Lanka



Nestlé Lanka established in 1906 and has been operating for over 115 years in Sri Lanka



In 2022, Nestlé Lanka contributed over LKR 10.0Bn to procure fresh milk & coconut. It also expanded its Kurunegala factory and initiated a biomass boiler project in 2023



It manufactures over 90% of its products locally at its state-of-the-art manufacturing facility in Kurunegala

Nestlé Lanka's Delisting from CSE: *Charts a New Course 4 Decades Later*

- Nestlé Lanka PLC which was quoted on the local bourse for 40 years as a publicly listed company, has now become the 107th company to delist from the CSE.
- In early May 2023, Nestlé Lanka announced that it will be delisting from the CSE, subject to shareholder and regulatory approvals.
- The company's BOD proposed to delist the ordinary voting shares from the Official List of the CSE and entered into an agreement with the controlling shareholder and parent company, Nestlé S.A. (effective holding of 91.95% in the company) to offer an exit price of LKR 1,500.0 per share at a 34% premium to the closing price of LKR 1,120.25 last traded pre-announcement, for the remaining 6,054 shareholders holding 8.05% stake in the company.
- As per the Delisting Rules, the BOD requires approval of the shareholders by way of a special resolution of 75% of the shareholders present at the meeting. Nestlé announced that an AGM will be held on the 30th of June 2023 to consider the delisting resolution.

The Delisting Decision:

Unraveling the Reasons

- Nestlé Lanka made the decision to operate as an unquoted company aligning with its global corporate strategy, rather than as a response to the economic crisis in Sri Lanka. It believes that being a listed company no longer offers it a competitive edge in Sri Lanka. Operating as an unquoted company would help the company drive efficiencies through simplification of processes and help its management focus more on core business activities.
- Also, the presence of a small minority shareholding hinders the company's ability to receive necessary capital injections from its parent company. This is due to concerns about further dilution of its public shareholding and the potential violation of minimum public holding requirements outlined in the Listing Rules.
- Around 106 companies have been delisted from the CSE which includes large multinationals such as Coca Cola. Prior to the delisting announcement, Nestlé Lanka was among the top 15 largest public companies listed in CSE, with over LKR 60.0Bn market cap.



Post-Delisting Implications: *Navigating the Path Ahead*

- Nestlé Lanka has not raised public funds to date and has funded investments internally through the support of its parent company. It also stated that it has the capacity to fund its future expansion plans in Sri Lanka internally without relying on Sri Lanka's public capital market. Therefore, the delisting decision will have no impact on the company's ability to raise capital in the future, growth prospects or financial performance.
- Following the delist, the company will cease to be a public listed company and its status will be changed to a limited company. There will be a name change from "Nestlé Lanka PLC" to "Nestlé Lanka Limited" in accordance with S.11(4) of the Companies Act No.07 of 2007.

Shareholder Rebellion:

Defying Delisting Proposals

- In recent times, PGP Glass Ceylon PLC which attempted to delist had eventually failed as the proposal was refused by minority shareholders. Property Development PLC (PDL) and AIA delisting proposals were also rejected by minority shareholders based on a 'one shareholder, one vote' principle.
- PDL's delisting decision took over 5 years after the proposal was first announced. It delisted by paying LKR 183.0 per share, which is more than 40% of what was offered in 2018. However, the company's shares did not witness a comparable increase in value as the Nestlé share, nor did it offer substantial dividend payments like Nestlé. In the end, the company, rather than its primary shareholder, Bank of Ceylon, acquired the remaining shares from the minority shareholders. In AIA's case, a price of LKR 2,500.0 per share was paid against an original exit offer price of LKR 1,000.0.
- Therefore, it may be possible to outvote Nestlé's delisting resolution based on the 'one shareholder, one vote' principle at the AGM and considering the past situations involving PDL & AIA, it is highly probable that there will be an attempt to increase the exit offer price. With the exception of Nestlé S.A., no individual shareholder listed on the register possesses more than 1% stake in Nestlé Lanka. However, institutions such as the Sri Lanka Insurance Corporation, EPF, as well as foreign and local funds, form part of the minority shareholders.
- In 2021, Nestlé S.A. initiated the purchase of less than 300,000 shares at a price of LKR 1,200.0 per share in Nestlé Lanka. Speculators anticipating a future delisting faced challenges in acquiring shares due to their unavailability and the high price of Nestlé shares. Nestlé Lanka subsequently declared a dividend of LKR 75.0 per share in February 2023, which is the largest dividend ever announced on the CSE, prior to the delisting.

An illustration on the left side of the slide shows two black hands, one at the top and one at the bottom, holding a green banknote. The banknote features a white silhouette of a person's head and a white circle. The background is a mix of green and yellow geometric shapes.

Exit-Offer Price: *Analysis*

- The Exit Offer Price of LKR 1,500.0 comprises:
 - a) a 58% premium to the daily volume weighted average market price of LKR 947.51 for the 12-month period ended 31st March 2023.
 - b) a 36% premium to the highest traded price of LKR 1,100.00 for the last 12-month period ended 31st March 2023.
 - c) a 10% premium to the highest of the Fair Price Range of LKR 1,367.7 determined by an independent valuer, and
 - d) is 650% higher than the NAV of LKR 199.95 per share reported for the quarter ended 31st December 2022.
- The company believes that the Exit Offer Price provides a fair value as its average daily turnover of LKR 2.2Mn accounts for only 0.0037% of its total market cap of LKR 60.0Bn.
- Nestlé Lanka strongly believes that accepting the offer at its “attractive and fair premium” price would be in the best interest of its shareholders, as holding shares in an unquoted company with illiquid shares offers no advantageous prospects.
- The company also mentioned that shareholders will receive the dividends already declared, totaling LKR 75.0 per share.

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