

Circular to shareholders



NESTLÉ LANKA PLC
No. 440, T. B. Jayah Mawatha, Colombo 10
PQ20

11 May 2023

Dear Shareholder,

VOLUNTARY DELISTING OF THE FULLY PAID ORDINARY VOTING SHARES OF NESTLÉ LANKA PLC FROM THE OFFICIAL LIST OF THE COLOMBO STOCK EXCHANGE

As you may be aware, the Company made an announcement on the Colombo Stock Exchange [“CSE”] on 3rd May 2023 that the Board of Directors has authorized the proposal to delist its ordinary voting shares from the Official List of the CSE. Consequently, the trading of the Company’s shares was suspended in accordance with the applicable rules and regulations [“Delisting Rules”] of the Securities and Exchange Commission of Sri Lanka [“SEC”].

The Board now seeks approval of the shareholders by way of a special resolution of seventy five percent of the shareholders present at the meeting for the aforesaid delisting as per the Delisting Rules.

The Delisting Rules also require the Board of the Company to arrange for the purchase of shares of shareholders who wish to dispose of their shares upon delisting [“Exit Offer”]. The Board has accordingly arranged for an Exit Offer at Sri Lankan rupees One Thousand and Five Hundred (LKR 1,500) per share.

This document sets out *inter alia* the background to the Company’s decision to delist, the basis of the Exit Offer and an explanation of the delisting procedures.

Shareholders are advised to carefully review this Circular and the ancillary documentation and to seek independent advice thereon to make an informed decision regarding the Exit Offer.

BACKGROUND AND RATIONALE FOR DELISTING

Nestlé Lanka PLC was incorporated in Sri Lanka in 1981 and has been listed on the Colombo Stock Exchange since 1983. Its controlling shareholder, Nestlé S.A (which has an effective holding of 91.95% in the Company), is the world's largest food and beverage company, operating more than 340 factories in 77 countries and its products sold in 188 countries.

Having operated in Sri Lanka for over 115 years, our deep-rooted bond and commitment towards the country and its people remains strong. In this journey, we have worked closely with our stakeholders to positively impact families, communities, and the planet.

We have been actively seeking ways to have a more efficient operation to enhance our contribution to the country even further. However, the company envisages challenges in raising significant capital from its shareholders through capital injection to fuel growth and the future success of the Company as it would result in further dilution of its public shareholding and possible violation of minimum public holding requirements as defined in Listing Rules.

Therefore, we are proposing to delist Nestlé Lanka from the Colombo Stock Exchange, subject to necessary approvals and clearances. The delisting will also help us strengthen our focus on core business activities.

In seeking the delisting of Nestlé Lanka PLC from the Colombo Stock Exchange, the Company has also considered the following:

1. Nestlé S.A currently owns 91.95% Nestlé Lanka PLC and does not envisage a further divestment of its stake, thereby resulting in only an insignificant minority stake being listed on the CSE
2. The average daily turnover of Nestlé Lanka PLC, which stands at LKR 2,181,130 (April 2022 to March 2023) in comparison to its market capitalization of LKR 60 billion (Average daily turnover is 0.0037% of the total market capitalization) is insufficient to contribute to the price discovery of its shares. The Company therefore strongly believes that the Exit Offer described herein will provide minority shareholders who wish to sell their shares, an opportunity to do so at a fair value and that exiting at the proposed Offer Price is in the best interest of the shareholders who have continued to place their trust in the Company over the years.
3. Nestlé Lanka PLC has funded its own operations and expansionary activities in Sri Lanka in the past without having to rely on public capital market, and wishes to state, it has the capacity to fund its further expansion plans in Sri Lanka internally without recourse to Sri Lanka's capital market. Any significant investment made by Nestlé Lanka PLC in the Sri Lankan market will also be supported by Nestlé S.A, the ultimate parent company of Nestlé Lanka PLC.
4. The overhang of a small minority shareholding could prevent the Company from benefiting from required injections of capital from its parent as its public shareholding could then fall below the minimum requirement of the Colombo Stock Exchange.

As in the past, Nestlé Lanka will continue to work with communities and bring high quality products to its valued Sri Lankan consumers, whilst doing good for the planet. The company will continue to drive efficiencies whilst upholding Sri Lanka's statutory reporting and compliance requirements and focus on delivering on its promise to the country and its people.

EXIT OFFER

The Board of the Company has arranged for Nestlé S.A to make an Exit Offer of Sri Lankan Rupees One Thousand and Five Hundred (LKR 1,500) per share to all the other shareholders of the Company.

Messrs. PricewaterhouseCoopers ("PWC") has conducted an Independent Professional valuation on the Company, a summary of which has been annexed herewith (The full report will be made available at Nestlé Lanka PLC, 440 T. B. Jayah Mawatha, Colombo 10). In its opinion and taking into account the share price of the Company in the last 12 months, the Exit Offer remains, as at date, an attractive and fair price for the Shares, and represents a premium over the value per Share attributed by each of the different and updated share valuation methodologies referred to therein.

The Board of the Company wishes to point out that the Exit Offer of LKR 1,500:

- a) reflects a 58% premium to the daily volume weighted average market price over the 12-month period ended 31st March 2023;
- b) is a 36% premium to the highest traded price over the last 12-month period ended 31st March 2023;
- c) is at a 10% premium, to the highest of the Fair Price Range determined by the aforementioned independent valuer; and

d) is 650% higher than the Net Asset Value of the Share as reported in the interim financial statements for the quarter ended 31st December 2022;

ANALYSIS OF THE SHARE PRICE OF NESTLÉ LANKA PLC

An analysis of the market prices of the shares of the Company for the 12-month period ended 31st March 2023 is given below.

Month	High (LKR)	Low (LKR)	Last Traded (LKR)	Daily Volume Weighted Average (LKR)
April 2022	1,097.25	900.00	1,092.00	936.77
May 2022	1,080.00	915.00	985.00	987.85
June 2022	1,000.00	905.00	920.00	947.75
July 2022	989.75	875.00	916.25	909.71
August 2022	965.00	914.50	929.75	933.22
September 2022	950.00	920.00	929.00	930.18
October 2022	950.00	890.00	950.00	904.95
November 2022	950.00	905.00	930.00	930.13
December 2022	964.75	870.00	919.75	920.85
January 2023	950.00	910.00	930.00	920.31
February 2023	1,100.00	930.00	1,070.00	985.88
March 2023	1,098.50	1,010.75	1,068.00	1,062.56
12-month period (April 2022 to March 2023)	1,100.00	870.00	1,068.00	947.51

Taking into account the independent valuation, the share performance of the Company in the last 12 months and the Net Asset Value per Share of LKR 199.95 as at 31st December 2022 being the latest publicly available information, the Board is of the opinion that the Exit Offer represents a substantial premium over the fair price for the Shares and recommends it to its shareholders.

Shareholders are encouraged to consider the above offer carefully. The Exit Offer is unconditional. Shareholders are not obliged to accept the Exit Offer and those shareholders who wish to retain their shareholding in the Company after the proposed delisting of the shares will be entitled to do so.

COMPLIANCE WITH STATUTORY AND REGULATORY PROCEDURE

The proposed delisting of the Shares will be carried out in accordance with the Delisting Rules of SEC.

Accordingly, after obtaining the approval of Shareholders at the Extraordinary General Meeting (EGM) to be held on **30th June 2023** referred to herein, the Company will forward an application to the SEC along with the required supporting documents for the proposed delisting of the shares and attend to all other applicable matters for the purpose of giving effect to the same.

IMPACT OF DELISTING

Upon delisting the shares from the Official List of the CSE, the Company will cease to be a public listed company and its status will be changed to a limited company (public unlisted) with a consequential change to its name from “Nestlé Lanka PLC” to “Nestlé Lanka Limited” in terms of S.11 (4) of the Companies Act No. 07 of 2007.

The proposed amendments in this regard are set out in Special Resolution b) in the attached Notice convening the EGM and deals with the removal of / amendment to the provisions on the listing status of the Company. Such proposed amendments to the Articles will, once adopted by shareholders at the EGM, come into effect on the date set out in the Certificate to be issued by the Registrar-General of Companies under the provisions of the Companies Act No. 07 of 2007.

The Company would like to make note that the dividends announced on 20th February 2023 and still payable amounting to LKR 75 per share, shall be paid to the shareholders who hold shares of the Company prior to the delisting of the Company subject to the approval of shareholders at the scheduled AGM. The delisting therefore shall have no impact on any dividends that have already been announced.

THE EGM

An Extraordinary General Meeting of the members of the company will be convened **at the Auditorium of the Institute of Chartered Accountants of Sri Lanka, No. 30A, Malalasekara Mawatha, Colombo 07, on Friday, 30th June 2023 at 11.00 am**, at which shareholder approval will be sought for approval for the delisting. The enclosed Notice of the EGM sets out the relevant special resolutions that have been approved by the Board of Directors for submission to shareholders for due adoption.

Shareholders who are unable to attend the EGM in person may elect a proxy to attend and cast their vote on their behalf. If you are interested in appointing such a proxy, kindly complete and return the enclosed Form of Proxy as per the specified instructions either by post to the Registered Office of the Company at No. 440, T. B. Jayah Mawatha, Colombo 00100 or by way of e-mail to Keerthi.Pathiraja@lk.nestle.com not less than 48 hours before the time of the EGM so that your Proxy can participate in the meeting and cast your vote in accordance with your directions. Completion and return of a proxy form by a shareholder will not prevent the shareholder from attending and voting in person at the EGM if he/she so wishes, in place of his/her proxy.

By order of the Board,

NESTLÉ LANKA PLC



Keerthi Pathiraja
Asst. Director – Legal / Company Secretary

Summary of Valuation carried out by PricewaterhouseCoopers

Fair value on a minority basis

As of 31 March 2023			
	DCF approach	EV/EBITDA multiple	DDM approach
Equity Value (LKR millions)	70,361-73,478	66,348-74,227	63,495
Equity Value per share (LKR)	1,309.6 - 1,367.7	1,243.9 - 1,381.6	1,181.8

The discounted cash flow (“DCF”) approach has been used as the primary valuation method to estimate the fair value of Nestlé Lanka on a minority interest but marketable basis. Based on the DCF approach, the estimated value of minority equity interest of Nestlé Lanka (minority, marketable basis, Ex-Dividend) as at 31 March 2023 is between LKR 1,309.6 and LKR 1,367.7 per share with LKR 1,338.65 being the midpoint of the range.

Relative valuation based on EV/EBITDA multiple was undertaken as a secondary approach to the DCF approach. EV/EBITDA (trailing twelve months) based on data from comparable peers results in a valuation range of LKR 1,243.9 and LKR 1,381.6 which is again based on the minority interest but marketable basis (Ex-Dividend date). The midpoint of this range is at LKR 1,312.75.

The dividend discount model (“DDM”) has also been employed to support the DCF approach. The DDM approach based on the average historical dividend payout ratio of 89.4% for the years 2018-2022 results in an equity value per share of Nestlé Lanka of LKR 1,181.8.

NOTICE OF MEETING

NESTLÉ LANKA PLC
440 T. B. Jayah Mawatha, Colombo 00100, Sri Lanka

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the Shareholders of the Company will be held on Friday, 30th June 2023 at 11.00am at the Auditorium of the Institute of Chartered Accountants of Sri Lanka, No. 30A, Malalasekara Mawatha, Colombo 07 for the purpose of considering and if thought fit, passing the following Resolutions.

SPECIAL RESOLUTIONS

- a) IT IS HEREBY RESOLVED THAT the ordinary voting shares of Nestlé Lanka PLC be de-listed from the Official List of the Colombo Stock Exchange and the ordinary voting shares of shareholders wishing to sell their shares in view of such delisting be purchased by Nestlé S.A at a price of LKR. 1,500/- per share.

IT IS FURTHER RESOLVED THAT the Board of Directors and the management of Nestlé Lanka PLC be and are hereby authorised to submit an application to de-list the Company voting shares to the Securities and Exchange Commission of Sri Lanka Rule 5 published in Gazette Extraordinary No. 1215/2 on 18th December 2001 and they are hereby further authorised to do all such other acts and things as they may consider necessary or expedient to give effect to the said delisting and also to this Resolution with such modifications thereto (if any) as they shall deem fit in the interests of the Company.

- b) IT IS HEREBY RESOLVED THAT the status of the Company will be changed upon the de-listing from a public limited company to a limited company and that the name of the Company will change from Nestlé Lanka PLC to Nestlé Lanka Limited in accordance with the provisions of the Companies Act No. 07 of 2007.

Yours faithfully

By Order of the Board of

NESTLÉ LANKA PLC



Keerthi Pathiraja

Asst. Director – Legal / Company Secretary

Note:

- I. A Shareholder who is unable to attend the meeting is entitled to appoint a Proxy to attend and vote in his or her place.
- II. A Proxy need not be a shareholder of the Company.
- III. A Form of Proxy accompanies this Notice.
- IV. Proxy form should be deposited 48 hours prior to the meeting at the registered office or sent via email to Keerthi.Pathiraja@lk.nestle.lk

Form of Proxy

Nestlé Lanka PLC

I / We.

.....
of.....
.....being a member / members of
the above named Company, hereby appoint Mr. Suresh Narayanan (whom failing), Mr. Bernhard Stefan
(whom failing), Mrs. Kumudu Dias (whom failing), Ms. Svetlana Boldinax (whom failing), Mr. Mahen
Dayananda (whom failing), Mr. Dian Gomes (whom failing), Mr. Mohamed Reyaz Mihular or
..... as my / our proxy to represent me/us and vote for
me/us on my/our behalf at the Extraordinary General Meeting of Nestlé Lanka PLC, to be held on Friday, 30
June 2023, at 11.00 a.m. at the Auditorium of the Institute of Chartered Accountants of Sri Lanka, No. 30A,
Malalasekara Mawatha, Colombo 07 or at any adjournment thereof.

Special Resolutions		For	Against
a.	IT IS HEREBY RESOLVED THAT the ordinary voting shares of Nestlé Lanka PLC be de-listed from the Official List of the Colombo Stock Exchange and the ordinary voting shares of shareholders wishing to sell their shares in view of such delisting be purchased by Nestlé S.A at a price of LKR. 1,500/- per share.		
	IT IS FURTHER RESOLVED THAT the Board of Directors and the management of Nestlé Lanka PLC be and are hereby authorised to submit an application to de-list the Company voting shares to the Securities and Exchange Commission of Sri Lanka Rule 5 published in Gazette Extraordinary No. 1215/2 on 18th December 2001 and they are hereby further authorised to do all such other acts and things as they may consider necessary or expedient to give effect to the said delisting and also to this Resolution with such modifications thereto (if any) as they shall deem fit in the interests of the Company.		
b	IT IS HEREBY RESOLVED THAT the status of the Company will be changed upon the de-listing from a public limited company to a limited company and that the name of the Company will change from Nestlé Lanka PLC to Nestlé Lanka Limited in accordance with the provisions of the Companies Act No. 07 of 2007.		

Signed on this day of.....2023

Instructions as to the completion

1. Kindly perfect the form of proxy legibly by filling in your full name and address in the spaces provided, along with the date and your signature.
2. If the proxy form is signed by an Attorney, the related Power of Attorney should also accompany the completed form of proxy for registration, if it has not been already registered with the Company.
3. If the Shareholder is a Company or Corporate Body, the proxy form should be executed in accordance with its Articles of Association or Constitution.
4. In the absence of any specific instructions as to voting, the proxy may use his/her discretion in exercising the vote on behalf of his appointor.
5. The completed form of proxy should be sent via e-mail to Keerthi.Pathiraja@lk.nestle.com, or by post to the registered address of the Company at No. 440, T. B. Jayah Mawatha, Colombo 10, not less than 48 hours before the time appointed for holding of the Extraordinary General Meeting.