NVC International Holdings Limited
雷士國際控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 2222)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO DISCLOSEABLE AND CONNECTED TRANSACTION

Reference is made to the announcement of the Company dated 8 March 2024 in relation to the Acquisition (the "**Announcement**"). Unless otherwise stated, capitalised terms used herein shall have the same meaning as those defined in the Announcement.

The Board wishes to provide the following supplemental information in relation to the Acquisition.

FURTHER INFORMATION ON BASIS OF CONSIDERATION

Consideration

As disclosed in the Announcement, the consideration payable by the Purchaser under the Share Purchase Agreement (the "**Consideration**") comprised the following:

(a) the initial consideration (the "**Initial Consideration**") of SEK6,000,000; and

(b) the Earn-Out Consideration, being:

  (i) additional earn-out consideration calculated based on the 15% of the adjusted EBITDA of the Target Company for each of years 2024, 2025 and 2026; and

(ii) a final payment of an amount corresponding to 40% of the net valuation of the Target Company (the "**Net Valuation**"), less the aggregate amount of the Initial Consideration and all earn-out consideration already paid under the Share Purchase Agreement.

The Earn-Out Consideration will be contingent on the earnings and financial performance of the Target Company and will not be payable by the Purchaser unless the said requisite conditions are met. The Board considers that this would better align the Company's settlement obligations with the Target Company's actual earning capability, and provide the Company with a longer period to assess and observe whether the Target Company can demonstrate stability over its earnings in the coming 3 years, thus providing additional protection and flexibility to the Company in terms of payment.

Net Valuation

The Net Valuation will be determined based on the following formula:

Net Valuation = (A x B) - C+ D

whereas:

"**A**" being the adjusted EBITDA of the Target Company for year 2027;

"**B**" being an Enterprise Value-to-Earnings Before Interest, Taxes, Depreciation and Amortization ratio ("**EV/EBITDA Ratio**") of 4 times;

"**C**" being the aggregate value of (1) overdue current creditors, (2) shareholder's capital contribution and (3) stock provision adjustment; and

"**D**" being the aggregate value of (1) cash balances exceeding SEK5 million, (2) gross margin from intragroup transactions (representing the impact of margin made in other group companies on reserves) and (3) capital investments.

Valuation methodology

The Company considered the income approach, market approach and cost approach for the valuation of the Target Company, and was of the view that (i) cost approach was not appropriate as it fails to consider the economic benefits of ownership of the Target Company's business; and (ii) income approach was also inappropriate as the underlying assumptions of financial forecast involves uncertainties and no reliable set of financial projections is available. Having considered the nature of the Target Company's business, limitation of income approach and the availability of comparable companies in the market, the Board considered the market approach to be more appropriate than the others.

Valuation multiple

When performing the market approach, the Company considered EV/EBITDA Ratio, price-to-book ratio ("**P/B ratio**"), and price-to-earnings ratio ("**P/E ratio**") and was the view that (i) P/B ratio is not appropriate as the Target Company is principally engaged in the sale and distribution business and is not capital intensive, hence its value depends on its earnings but not its asset base; and (ii) P/E ratio would be affected by the capital structure of the comparable companies and does not cater for the difference in tax policies in different countries.

Considering that (i) the gearing ratio, amortization and depreciation policy and tax policy may not be similar among comparable companies and the Target Company, and (ii) EV/EBITDA Ratio is a common valuation method for the assessment of value of companies with profitable businesses, especially when the Target Company is a relatively asset-light company which does not rely on a significant amount of fixed assets and equipment for operation, the Board considered that EV/EBITDA Ratio, which eliminates the differences arising from tax policy, accounting policy and capital structure, was the most appropriate valuation multiple.

EV/EBITDA Ratio

The Board had considered the following in adopting the EV/EBITDA Ratio of approximately 4 times:

(a) A total of eight comparable companies (the "**Comparable Companies**") were identified, each being a company listed on a stock exchange and also operating in the lighting industry, among which (i) three are principally engaged in the sale and distribution of lighting products ("**Category A Companies**") and (ii) five are principally engaged in the manufacturing and distributing of lighting or lighting fixtures with own brands ("**Category B Companies**"). To the best of the Directors' knowledge, information and belief, the Comparable Companies represent an exhaustive list of companies satisfying the selection criteria obtained by the Company on a best effort basis.

(b) Based on information disclosed in Morningstar.com of year 2023, (i) the EV/EBITDA Ratios of the Category A Companies (excluding one which was not profit making in the latest financial year) were 6.9 times and 11.9 times respectively, with an average of 9.4 times; and (ii) the EV/EBITDA Ratios of the Category B Companies (excluding two which were not profit making in the latest financial year) ranged from 3.1 times to 11.66 times, with an average of 7.4 times. The EV/EBITDA Ratio of 4 times falls within the range of and is below the average EV/EBITDA Ratios of the Comparable Companies.

(c) Noting that the Target Company is not listed on any stock exchange, the EV/EBITDA Ratio of 4 times also reflected a discount for the lack of marketability ("**DLOM**") of approximately 45% to the lower of the average EV/EBITDA multiple of Comparable Companies of 7.4 times. According to the "Control Premium & Discount for Lack of Marketability Study" published by Moore in February 2024, the DLOM adopted in 34 valuation reports published on the Stock Exchange in 2023 ranged from 9.0% to 42.9%.

Based on the above, the Board (including the independent non-executive Directors) is of the view that the Consideration (including the EV/EBITDA Ratio and DLOM adopted) are fair and reasonable and in the interests of the Company and its shareholders.

By Order of the Board
NVC International Holdings Limited
WANG Donglei
Chairman

Hong Kong, 29 April 2024

As at the date of this announcement, the directors of the Company are:

Executive Directors:
WANG Donglei
CHAN Kim Yung, Eva
XIAO Yu
WANG Keven Dun

Non-executive Director:
YE Yong

Independent Non-executive Directors:
LEE Kong Wai, Conway
WANG Xuexian
CHEN Hong