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9B19N019

HTL International: A buyout offer with a profit guarantee[[1]](#endnote-1)

Ruth S. K. Tan, Chee Kiong Chng, Zsuzsa R. Huszár, and Weina Zhang wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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Founded in 1976, HTL International Holdings Ltd (HTL) was a furniture company with a global presence in over 52 countries. It was listed on the Singapore Exchange (SGX).[[2]](#endnote-2) On February 24, 2016, after months of discussions, HTL announced that it had entered into an agreement with Guangdong Yihua Timber Industry Co. Ltd (Yihua), which was listed on the Shanghai Stock Exchange. According to the agreement, Yihua would pay SG$1.00[[3]](#endnote-3) for each share of HTL.[[4]](#endnote-4) However, the agreement required that HTL meet certain profit targets in each of the next three years. In an unusual arrangement, BEM Holdings Pte Ltd (BEM), which was HTL’s controlling shareholder, entered into a compensation agreement with Yihua, agreeing to make up any shortfall to Yihua if HTL’s profit targets were not met.[[5]](#endnote-5)

The profit guarantee was made by BEM in its own capacity. HTL’s minority shareholders were not bound by the terms of the compensation agreement; they would receive $1.00 per share without any encumbrances. Assuming that HTL did not make its profit targets, BEM’s guarantee would reduce the amount Yihua would pay for the shares and the amount BEM would receive from the acquisition.

When the agreement was announced, HTL’s share price was at $0.70, leaving a $0.30 gap between the share price and the offer price of $1.00. The announced offer to acquire HTL shares presented a possible arbitrage opportunity for investors; but to assess whether the opportunity should be pursued, investors would need to delve deeper into HTL’s background, evaluate its historical performance, and conduct a valuation of its shares to gauge the likelihood that the acquisition would be approved by Yihua’s shareholders.

htl International HOldings Ltd

In 1976, Phua Yong Pin, a skilled upholsterer, started Hwa Tat Lee with his two brothers, Phua Yong Tat and Phua Yong Sin.[[6]](#endnote-6) The company sold sofas made from polyvinyl chloride (PVC), also known as synthetic leather.

In 1981, Hwa Tat Lee entered into a manufacturing partnership with Laauser GmbH, one of the oldest manufacturers of leather sofas in Germany.[[7]](#endnote-7) Hwa Tat Lee started its first overseas manufacturing operation in Kulai, Malaysia, in 1989.[[8]](#endnote-8) Subsequently, the company gained a foothold in Hong Kong, Australia, and Japan.[[9]](#endnote-9)

Hwa Tat Lee sought listing on the SGX in 1993.[[10]](#endnote-10) The company’s initial public offering (IPO) comprised a fixed price tranche of 15.2 million shares and a tender tranche of 22.8 million shares.[[11]](#endnote-11) The fixed price tranche was set at $0.60 per share, and that formed the floor price for the tender tranche.[[12]](#endnote-12) Applicants for the fixed price tranche could apply for 1,000 or 5,000 shares. The fixed price tranche was 41 times oversubscribed. The balloting ratios for those who applied for 1,000 shares and 5,000 shares were 1:14 and 1:70, respectively.[[13]](#endnote-13)

The tender tranche did not have a restriction on the number of shares that one could apply for. Applications were allocated in full, from the highest bid price downward.[[14]](#endnote-14) All successful applicants paid the same price at the cut-off—that is, at the lowest successful price. The tender tranche was seven times oversubscribed, and the strike price was established at $1.02 per share.[[15]](#endnote-15)

On the first day of trading, September 27, 1993, Hwa Tat Lee’s shares closed at $1.11.[[16]](#endnote-16) With the capital raised, Hwa Tat Lee entered China in 1994 with a sofa manufacturing plant at Kunshan. In the same year, the company started leather tanning operations in Singapore, creating a vertically integrated supply chain. In 1996, it started wholesale and distribution operations in Japan.[[17]](#endnote-17)

The immediate few years after being listed were challenging times for the company. It reported a 43.8 per cent drop in net earnings to $2.54 million[[18]](#endnote-18) for the year ending December 31, 1994. (Earnings in 1993 were $4.51 million.)[[19]](#endnote-19) In 1995, the company suffered a net loss of $3.63 million,[[20]](#endnote-20) went deeper into the red with a net loss of $4.05 million in 1996,[[21]](#endnote-21) returned to the black with $1.3 million in profit in 1997,[[22]](#endnote-22) but ended 1998 with a net loss of $1.95 million.[[23]](#endnote-23) The investments finally started to bear fruit in 1999 when the company ended the year with a historical high net income of $8.1 million.[[24]](#endnote-24) It attributed the strong results to improvement in its overseas markets, such as Japan and Europe.[[25]](#endnote-25)

In 2000, Hwa Tat Lee was renamed HTL International Holdings Ltd.[[26]](#endnote-26) By then, most of its revenue was from business beyond Singapore’s shores. In 2002, 2003, and 2004, HTL was recognized as one of the world’s “200 Best Small Companies” by *Forbes*.[[27]](#endnote-27) In 2005, Phua Yong Tat, the firm’s managing director, received the “Businessman of the Year” award from Singapore Business Awards.[[28]](#endnote-28) Also in 2005, HTL acquired the luxury German furniture brand Domicil Moebel GmbH with the ambition of developing a retail franchise platform.[[29]](#endnote-29)

From 1999 to 2006, business grew by leaps and bounds. HTL’s net income went up by more than six times from 1999 to a peak of $54.33 million in 2006 (see Exhibit 1. Exhibits are also available as an Excel spreadsheet, Ivey product 7B19N019).[[30]](#endnote-30) Like most companies, HTL struggled during the subprime crisis. In 2007, net income dropped 81 per cent from the prior year to $10.2 million.[[31]](#endnote-31) In 2008, HTL suffered its first loss in 10 years, losing $20.3 million.[[32]](#endnote-32) Things turned for the better in 2009, with a net income of $48.3 million,[[33]](#endnote-33) but after that, the company’s net income generally dropped (see Exhibit 1).

Despite the volatile operating performance inherent in a highly cyclical industry, HTL continued to expand by acquiring a Japanese company, Terasoh Co. Ltd, in 2011 and an Italian company, Corium Italia Srl, in 2012.[[34]](#endnote-34) As of 2015, HTL had a presence in over 52 countries, with more than 6,000 employees spread across eight fully integrated manufacturing facilities in China, serving the whole value chain from leather tanning to final shipment and delivery. The company also had an assembly plant in Europe.[[35]](#endnote-35)

share price performance

Over the period from its IPO in September 1993 to just before the first announcement of a possible acquisition by Yihua on October 27, 2015, HTL’s share price experienced high volatility with a standard deviation of 31 per cent based on daily prices (see Exhibit 2).

HTL’s share price peaked at $1.42 in May 2006 after an astonishing operating performance in 2005. During the financial crisis in 2008, the share price tumbled down to as low as $0.07. It managed to recover ground and rose to $0.89 in April 2010. After that, HTL’s share price trended downward again. It was hovering in the range of $0.20 to $0.33 from January 2014 to just before the announcement.

yihua’s offer

On October 27, 2015, HTL announced that its controlling shareholder, BEM, had entered into a memorandum of understanding with Yihua in relation to potential corporate transactions aimed at realizing value for all shareholders.[[36]](#endnote-36) BEM was owned by the three founders of HTL.[[37]](#endnote-37) The share price reacted immediately to the news and rose from $0.24 to $0.48 (see Exhibit 3).[[38]](#endnote-38)

Yihua specialized in the manufacture, processing, and sale of wood products such as parquet and laminated wood flooring, wood furniture, wood doors, and prefabricated houses.[[39]](#endnote-39) Its products were distributed within domestic markets in the People’s Republic of China and to overseas markets.[[40]](#endnote-40)

On November 18, 2015, BEM entered into a framework agreement with Yihua. Under the agreement, Yihua would acquire HTL’s shares with an arrangement that allowed HTL to be delisted with acceptance from only 75 per cent of its shareholders instead of the usual 90 per cent.[[41]](#endnote-41) It was all or nothing for Yihua; its intention was to delist HTL.

HTL advised shareholders to exercise caution when trading: “There is also no assurance whatsoever that the possible acquisition will eventually materialize, as key commercial terms are still being discussed.”[[42]](#endnote-42)

Still, in response to the framework agreement, HTL’s share price closed two cents higher at $0.42 on November 18, 2015 (see Exhibit 3).[[43]](#endnote-43)

On December 11, 2015, HTL was informed by BEM that BEM was in advance talks with Yihua.[[44]](#endnote-44) On December 21, 2015, SGX queried the “the unusual price movement” of HTL’s stock, which had moved up four cents to $0.67 (see Exhibit 3).[[45]](#endnote-45)

On January 7, 2016, Yihua made a possible offer to purchase that was contingent on approval by Yihua’s own shareholders.[[46]](#endnote-46) Yihua also entered into an acquisition agreement with BEM, in which BEM agreed to vote in favour of the acquisition at the scheme meeting and agreed to the compensation arrangement.[[47]](#endnote-47) Following the conditional offer, HTL’s share price climbed from the previous close of $0.69 to $0.81 (see Exhibit 3).[[48]](#endnote-48)

On February 24, 2016, an announcement confirmed the final transaction price at $1.00 per share.[[49]](#endnote-49) At that point, the offer was still subject to approvals.

compensation arrangement

Yihua’s offer of $1.00 per share had various conditions. These included that HTL be delisted and that HTL achieve net profits of US$25 million, US$27.5 million, and US$30.25 million in the three years subsequent to the acquisition.[[50]](#endnote-50) These profit targets were effectively guaranteed by BEM. They were substantially higher than HTL’s net income of US$7.81 million in 2012, US$0.76 million in 2013, and US$5.31 million in 2014, and its loss of US$1.61 million in 2015 (see Exhibit 4). To delist HTL, Yihua needed to acquire 75 per cent of HTL’s shares. Thus far, 50.45 per cent of HTL’s shareholders had voted in favour of the offer (see Exhibit 5).

To guarantee the profits, BEM agreed to compensate Yihua by paying an amount equivalent to the shortfall in each of the three years subsequent to the acquisition in the following circumstances:

* if HTL’s net profit after tax (NPAT) for the first financial period—August 1, 2016, to July 31, 2017—was lower than US$25 million;
* if HTL’s NPAT for the second financial period—August 1, 2017, to July 31, 2018—was lower than US$27.5 million; and
* if HTL’s NPAT for the third financial period—August 1, 2018, to July 31, 2019—was lower than US$30.25 million.[[51]](#endnote-51)

BEM gave the profit guarantee in its own capacity, not as an agent of HTL or other shareholders.[[52]](#endnote-52) Thus BEM, and BEM alone, would be liable to make up any shortfall if the profit targets were not met.

Yihua explained that acquiring HTL would help to enhance Yihua’s international influence and status, and the acquisition would complement Yihua’s product offerings. Delisting HTL would give Yihua greater flexibility in promoting efficiency and competitiveness through changes in strategy or investments.[[53]](#endnote-53)

valuation

Minority shareholders did not need to worry about the profit guarantee because they would receive $1.00 for each share regardless. Their decision to buy, sell, or hold shares would hinge on whether the offer was likely to be approved by Yihua’s shareholders. The likelihood of the offer being accepted or rejected by Yihua’s shareholders, in turn, would depend on what HTL’s shares were worth.

The valuation of HTL’s shares could be conducted using discounted cash flow (DCF), the discounted dividend model (DDM), and relative valuation (RV).

Discounted Cash Flow

The concept of DCF valuation was based on the principle that the value of a company could be determined by the company’s ability to generate cash flows. Historical financial statements helped to understand the relationships between revenues and the company’s cost drivers (see Exhibits 4, 6, and 7). Ultimately, it would be necessary to make assumptions about these drivers in order to project the cash flows for the initial few years before a reasonable terminal growth rate could be applied in perpetuity (see Exhibit 8). All projected cash flows would be discounted by using the weighted average cost of capital to arrive at the company’s current value. DCF valuation provided insights to the drivers of a share value, but it did have shortcomings; for example, small changes in assumptions and inputs could result in large changes in the valuation.[[54]](#endnote-54)

Discounted Dividend Model

The DDM was based on the theory that a stock would be worth the sum of all of its discounted future dividend payments. The discount rate used was the cost of equity capital. For stocks with a solid history of dividend growth, it was reasonable to assume that the historical growth rate would continue for some years before a terminal growth rate would be applied (see Exhibit 9). The terminal growth rate assumed that the company would grow at a constant rate forever. The DDM was a simple and convenient way of valuing stocks, but it was extremely sensitive to growth rates.[[55]](#endnote-55)

Relative Valuation

RV compared the value of a company to its competitors. Some common multiples or benchmarks used for comparison included price to earnings (P/E), price to book (P/B), and price to sales (P/S) ratios, as well as enterprise value to earnings before interest, tax, depreciation, and amortization (EV/EBITDA). The P/E multiple showed how much investors were willing to pay per dollar of earnings. It was a popular metric, but because the denominator of the ratio was earnings, care had to be taken when comparing peers from countries that were subject to different accounting regulations. Further, the P/E multiple could not be used if earnings were negative.

The P/B multiple compared share price to book equity. It gave some idea of whether an investor would be paying too much for what would be left if the company were to go bankrupt immediately. If P/B was less than one, investors could, in theory, buy all the shares of the company, liquidate the assets, pay off the company’s liabilities, and still have money left.

The P/S multiple showed how much investors were willing to pay per dollar of sales. It was a useful metric for comparing companies that had yet to generate positive earnings. It was also useful for comparing companies that were subject to different accounting regimes because sales, the denominator in the ratio, was a top line figure in an income statement and, therefore, less affected by accounting policies.

The EV/EBITDA multiple compared the value of a company, inclusive of debt and other liabilities, to its earnings, exclusive of non-cash expenses. The multiple was capital structure neutral and so was especially useful for comparing companies with different capital structures.

Regardless of which multiple was used, developing accurate benchmarks was important. It was crucial that the companies for comparison be from the same industry with similar market capitalization. Thus, although information on a number of HTL’s potential regional and global peers had been gathered (see Exhibits 10–13), further deliberation was required to identify a suitable group for comparison.

Precedent Transaction Analysis

Apart from the traditional DCF, DDM, and RV methods, valuation could also be done by examining precedent transactions. Precedent transaction analysis used publicly available information about prices paid by purchasers for similar companies to estimate what a target company would be worth. Under normal market conditions, transaction comparables typically provided higher valuations than did peer comparables because acquirers were willing to pay a higher value to control the business (a control premium) rather than simply own a share of the equity. Also, strategic buyers often had the opportunity to realize the financial benefit of synergies.

Information on comparable acquisitions involving furniture manufacturers based in Asia Pacific in the previous five years had been screened. Specifically, certain transactions were filtered out: those that involved the purchase of a minority stake, which would affect the control premium paid, and those that included non-cash purchase consideration or financial sponsors, which would affect the deal dynamics. After the screening, seven precedent transactions were left for consideration (see Exhibit 14).

The Investment Decision

Yihua had agreed to pay $1.00 for each HTL share, but the offer was subject to approval of Yihua’s shareholders. The agreement included an unusual compensation arrangement, whereby HTL’s controlling shareholder would make up any shortfall to Yihua if profit targets set out for HTL in the offer were not met. Assuming HTL did not make the profit targets, the compensation arrangement would effectively reduce the amount Yihua paid for HTL shares.

When the offer was announced, HTL shares were trading at $0.70. The $0.30 gap between the current share price and the offer price of $1.00 reflected the uncertainty surrounding the offer.

As a retail investor, you are intrigued by the arbitrage opportunity to benefit from the $0.30 gap. Whether you should buy HTL shares to benefit from the price gap depends on the likelihood of the acquisition being approved. If the acquisition is likely to be successful, you will benefit from having purchased HTL shares now. If, however, you suspect Yihua’s shareholders will not approve the offer, it will be better to short sell HTL shares to profit from the anticipated fall in share price. Whether the shareholders will approve the deal, in turn, depends on the intrinsic value of HTL shares and the impact of the profit guarantee. The price gap might not be available for long, so there is some urgency to investigating and valuing HTL yourself.

Exhibit 1: HTL International Holdings Ltd, net income

(in SG$ millions), 1993–2015

Note: SG$ = SGD = Singapore dollars.

Source: “Net Income of HTL International,” FactSet, accessed July 21, 2017.

Exhibit 2: HTL International HOldings Ltd, share price

(in SG$), 1994–2016

Note: SG$ = SGD = Singapore dollars.

Source: “Daily Prices of HTL International,” FactSet, accessed July 21, 2017.

Exhibit 3: HTL International Holdings Ltd, share price (March 2015–February 2016)

| **Date** | **Share Price** |
| --- | --- |
| 2016-02-29 | 0.64 |
| 2016-02-26 | 0.66 |
| 2016-02-25 | 0.65 |
| 2016-02-24 | 0.70 |
| 2016-02-23 | 0.70 |
| 2016-02-22 | 0.70 |
| 2016-02-19 | 0.70 |
| 2016-02-18 | 0.69 |
| 2016-02-17 | 0.67 |
| 2016-02-16 | 0.69 |
| 2016-02-15 | 0.68 |
| 2016-02-12 | 0.61 |
| 2016-02-11 | 0.62 |
| 2016-02-10 | 0.64 |
| 2016-02-05 | 0.66 |
| 2016-02-04 | 0.69 |
| 2016-02-03 | 0.70 |
| 2016-02-02 | 0.69 |
| 2016-02-01 | 0.67 |
| 2016-01-29 | 0.67 |
| 2016-01-28 | 0.72 |
| 2016-01-27 | 0.73 |
| 2016-01-26 | 0.74 |
| 2016-01-25 | 0.74 |
| 2016-01-22 | 0.71 |
| 2016-01-21 | 0.62 |
| 2016-01-20 | 0.63 |
| 2016-01-19 | 0.65 |
| 2016-01-18 | 0.61 |
| 2016-01-15 | 0.64 |
| 2016-01-14 | 0.69 |
| 2016-01-13 | 0.69 |
| 2016-01-12 | 0.71 |
| 2016-01-11 | 0.74 |
| 2016-01-08 | 0.81 |
| 2016-01-07 | 0.69 |
| 2016-01-06 | 0.69 |
| 2016-01-05 | 0.69 |
| 2016-01-04 | 0.69 |
| 2015-12-31 | 0.69 |
| 2015-12-30 | 0.69 |
| 2015-12-29 | 0.69 |
| 2015-12-28 | 0.69 |
| 2015-12-24 | 0.68 |
| 2015-12-23 | 0.67 |
| 2015-12-22 | 0.70 |
| 2015-12-21 | 0.67 |
| 2015-12-18 | 0.63 |
| 2015-12-17 | 0.61 |
| 2015-12-16 | 0.57 |
| 2015-12-15 | 0.58 |
| 2015-12-14 | 0.57 |
| 2015-12-11 | 0.51 |
| 2015-12-10 | 0.45 |
| 2015-12-09 | 0.45 |
| 2015-12-08 | 0.45 |
| 2015-12-07 | 0.45 |
| 2015-12-04 | 0.45 |
| 2015-12-03 | 0.45 |
| 2015-12-02 | 0.44 |
| 2015-12-01 | 0.45 |
| 2015-11-30 | 0.45 |
| 2015-11-27 | 0.44 |
| 2015-11-26 | 0.45 |
| 2015-11-25 | 0.45 |
| 2015-11-24 | 0.46 |
| 2015-11-23 | 0.45 |
| 2015-11-20 | 0.44 |
| 2015-11-19 | 0.43 |
| 2015-11-18 | 0.42 |
| 2015-11-17 | 0.40 |
| 2015-11-16 | 0.39 |
| 2015-11-13 | 0.38 |
| 2015-11-12 | 0.40 |
| 2015-11-11 | 0.40 |
| 2015-11-09 | 0.40 |
| 2015-11-06 | 0.39 |
| 2015-11-05 | 0.39 |
| 2015-11-04 | 0.39 |
| 2015-11-03 | 0.38 |
| 2015-11-02 | 0.39 |
| 2015-10-30 | 0.36 |
| 2015-10-29 | 0.38 |
| 2015-10-28 | 0.48 |
| 2015-10-27 | 0.24 |
| 2015-10-26 | 0.24 |
| 2015-10-23 | 0.24 |
| 2015-10-22 | 0.24 |
| 2015-10-21 | 0.25 |
| 2015-10-20 | 0.25 |
| 2015-10-19 | 0.24 |
| 2015-10-16 | 0.23 |
| 2015-10-15 | 0.23 |
| 2015-10-14 | 0.23 |
| 2015-10-13 | 0.23 |
| 2015-10-12 | 0.23 |
| 2015-10-09 | 0.23 |
| 2015-10-08 | 0.23 |
| 2015-10-07 | 0.23 |
| 2015-10-06 | 0.23 |
| 2015-10-05 | 0.23 |
| 2015-10-02 | 0.24 |
| 2015-10-01 | 0.24 |
| 2015-09-30 | 0.21 |
| 2015-09-29 | 0.21 |
| 2015-09-28 | 0.22 |
| 2015-09-25 | 0.24 |
| 2015-09-23 | 0.24 |
| 2015-09-22 | 0.22 |
| 2015-09-21 | 0.23 |
| 2015-09-18 | 0.23 |
| 2015-09-17 | 0.23 |
| 2015-09-16 | 0.23 |
| 2015-09-15 | 0.22 |
| 2015-09-14 | 0.21 |
| 2015-09-10 | 0.21 |
| 2015-09-09 | 0.23 |
| 2015-09-08 | 0.22 |
| 2015-09-07 | 0.22 |
| 2015-09-04 | 0.22 |
| 2015-09-03 | 0.23 |
| 2015-09-02 | 0.23 |
| 2015-09-01 | 0.23 |
| 2015-08-31 | 0.23 |
| 2015-08-28 | 0.23 |
| 2015-08-27 | 0.23 |
| 2015-08-26 | 0.23 |
| 2015-08-25 | 0.20 |
| 2015-08-24 | 0.23 |
| 2015-08-21 | 0.24 |
| 2015-08-20 | 0.24 |
| 2015-08-19 | 0.23 |
| 2015-08-18 | 0.23 |
| 2015-08-17 | 0.23 |
| 2015-08-14 | 0.23 |
| 2015-08-13 | 0.24 |
| 2015-08-12 | 0.24 |
| 2015-08-11 | 0.24 |
| 2015-08-06 | 0.24 |
| 2015-08-05 | 0.24 |
| 2015-08-04 | 0.24 |
| 2015-08-03 | 0.24 |
| 2015-07-31 | 0.24 |
| 2015-07-30 | 0.24 |
| 2015-07-29 | 0.23 |
| 2015-07-28 | 0.23 |
| 2015-07-27 | 0.23 |
| 2015-07-24 | 0.23 |
| 2015-07-23 | 0.24 |
| 2015-07-22 | 0.25 |
| 2015-07-21 | 0.25 |
| 2015-07-20 | 0.25 |
| 2015-07-16 | 0.25 |
| 2015-07-15 | 0.25 |
| 2015-07-14 | 0.25 |
| 2015-07-13 | 0.25 |
| 2015-07-10 | 0.25 |
| 2015-07-09 | 0.25 |
| 2015-07-08 | 0.25 |
| 2015-07-07 | 0.25 |
| 2015-07-06 | 0.25 |
| 2015-07-03 | 0.23 |
| 2015-07-02 | 0.25 |
| 2015-07-01 | 0.25 |
| 2015-06-30 | 0.25 |
| 2015-06-29 | 0.25 |
| 2015-06-26 | 0.26 |
| 2015-06-25 | 0.23 |
| 2015-06-24 | 0.24 |
| 2015-06-23 | 0.26 |
| 2015-06-22 | 0.26 |
| 2015-06-19 | 0.26 |
| 2015-06-18 | 0.26 |
| 2015-06-17 | 0.24 |
| 2015-06-16 | 0.24 |
| 2015-06-15 | 0.25 |
| 2015-06-12 | 0.25 |
| 2015-06-11 | 0.24 |
| 2015-06-10 | 0.25 |
| 2015-06-09 | 0.25 |
| 2015-06-08 | 0.25 |
| 2015-06-05 | 0.25 |
| 2015-06-04 | 0.25 |
| 2015-06-03 | 0.25 |
| 2015-06-02 | 0.25 |
| 2015-05-29 | 0.26 |
| 2015-05-28 | 0.26 |
| 2015-05-27 | 0.26 |
| 2015-05-26 | 0.27 |
| 2015-05-25 | 0.27 |
| 2015-05-22 | 0.27 |
| 2015-05-21 | 0.26 |
| 2015-05-20 | 0.26 |
| 2015-05-19 | 0.26 |
| 2015-05-18 | 0.26 |
| 2015-05-15 | 0.26 |
| 2015-05-14 | 0.25 |
| 2015-05-13 | 0.26 |
| 2015-05-12 | 0.25 |
| 2015-05-11 | 0.25 |
| 2015-05-08 | 0.24 |
| 2015-05-07 | 0.25 |
| 2015-05-06 | 0.25 |
| 2015-05-05 | 0.26 |
| 2015-05-04 | 0.26 |
| 2015-04-30 | 0.26 |
| 2015-04-29 | 0.26 |
| 2015-04-28 | 0.26 |
| 2015-04-27 | 0.26 |
| 2015-04-24 | 0.26 |
| 2015-04-23 | 0.26 |
| 2015-04-22 | 0.26 |
| 2015-04-21 | 0.26 |
| 2015-04-20 | 0.27 |
| 2015-04-17 | 0.27 |
| 2015-04-16 | 0.27 |
| 2015-04-15 | 0.27 |
| 2015-04-14 | 0.26 |
| 2015-04-13 | 0.26 |
| 2015-04-10 | 0.25 |
| 2015-04-09 | 0.25 |
| 2015-04-08 | 0.26 |
| 2015-04-07 | 0.26 |
| 2015-04-06 | 0.26 |
| 2015-04-02 | 0.25 |
| 2015-04-01 | 0.26 |
| 2015-03-31 | 0.26 |
| 2015-03-30 | 0.26 |
| 2015-03-27 | 0.25 |
| 2015-03-26 | 0.26 |
| 2015-03-25 | 0.25 |
| 2015-03-24 | 0.25 |
| 2015-03-23 | 0.25 |
| 2015-03-20 | 0.25 |
| 2015-03-19 | 0.26 |
| 2015-03-18 | 0.26 |
| 2015-03-17 | 0.25 |
| 2015-03-16 | 0.25 |
| 2015-03-13 | 0.25 |
| 2015-03-12 | 0.23 |
| 2015-03-11 | 0.23 |
| 2015-03-10 | 0.24 |
| 2015-03-09 | 0.24 |
| 2015-03-06 | 0.24 |
| 2015-03-05 | 0.24 |
| 2015-03-04 | 0.23 |
| 2015-03-03 | 0.24 |
| 2015-03-02 | 0.25 |

Note: SG$ = SGD = Singapore dollars.

Source: “Daily Prices of HTL International,” FactSet, accessed July 21, 2017.

EXHIBIT 4: HTL International Holdings Ltd, INCOME STATEMENT

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **(in US$ '000)** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** |
| Revenue | 453,037 | 529,636 | 583,305 | 534,265 | 500,577 | 454,852 |
| Cost of sales | (277,085) | (341,406) | (393,926) | (367,083) | (347,488) | (327,356) |
| Gross profit | 175,952 | 188,230 | 189,379 | 167,182 | 153,089 | 127,496 |
| Other operating income | 4,521 | 6,035 | 9,299 | 10,821 | 8,677 | 4,007 |
| Selling, marketing, and distribution expenses | (120,886) | (137,821) | (145,087) | (131,482) | (124,406) | (102,383) |
| Administrative expenses | (28,992) | (33,691) | (35,969) | (34,246) | (34,261) | (30,765) |
| Other operating expenses | (534) | (3,068) | (692) | (1,798) | (3,760) | (1,446) |
| Operating profit before net finance cost and net FX loss/gain | 30,061 | 19,685 | 16,930 | 10,477 | (661) | (3,091) |
| Finance income | 207 | 392 | 652 | 235 | 243 | 99 |
| Finance expense | (3,010) | (4,042) | (4,416) | (3,590) | (2,029) | (1,437) |
| Operating profit before net FX loss/gain | 27,258 | 16,035 | 13,166 | 7,122 | (2,447) | (4,429) |
| Net FX (loss)/gain | (983) | (1,088) | 1,133 | (2,472) | 13,247 | 6,950 |
| Profit before income tax expense | 26,275 | 14,947 | 14,299 | 4,650 | 10,800 | 2,521 |
| Income tax expense | (8,190) | (9,115) | (6,494) | (3,892) | (5,494) | (4,127) |
| Net profit for the year | 18,085 | 5,832 | 7,805 | 758 | 5,306 | (1,606) |
| Attributable to |  |  |  |  |  |  |
| Owners of the company | 18,085 | 5,617 | 7,660 | 685 | 5,257 | (1,630) |
| Non-controlling interest | 0 | 215 | 145 | 73 | 49 | 24 |

Note: FX = foreign currency exchange.

Source: HTL International Holdings Ltd, *Annual Report 2012: Adapting to a Changing World*, accessed July 3, 2017, www.htlinternational.com/annual-reports/pdf/3562b6\_htlintlannualreport2012.pdf; HTL International Holdings Ltd, *Annual Report 2013: Sharpening Our Focus*, accessed July 3, 2017, www.htlinternational.com/annual-reports/pdf/ca5394\_ar2013.pdf; HTL International Holdings Ltd, *Annual Report 2014: Moving Up the Value Chain*, accessed July 3, 2017, www.htlinternational.com/annual-reports/pdf/f04925\_ar2014.pdf; and HTL International Holdings Ltd, *Annual Report 2015: Seizing Opportunities to Create Value*, accessed July 3, 2017, www.htlinternational.com/annual-reports/pdf/0396bd\_htlannualreport2015.pdf.

Exhibit 5: shareholders who voted in FAVOUR of the scheme of arrangement

|  |  |  |
| --- | --- | --- |
| **Shareholder (as of the latest practicable date)** | **Number of Shares** | **%(1)** |
| BEM Holdings Pte Ltd | 177,029,010 | 44.28 |
| BEM Investment Pte Ltd(2) | 17,569,520 | 4.40 |
| Hua Yong Pin | 204,300 | 0.05 |
| Chua Xiu Chin | 1,628,000 | 0.41 |
| Phua Yong Sin | 588,000 | 0.15 |
| Phua Yong Tat | 4,142,000 | 1.04 |
| Lim Yan Siu | 296,000 | 0.07 |
| Phua Bo Wen | 146,000 | 0.04 |
| Phua Jing Hong | 48,000 | 0.01 |
| Phua Boon Huat | 26,000 | 0.01 |
|  | 201,676,830 | 50.45(3) |

Notes: (1) Calculated based on 399,753,218 shares in issue (excluding 16,810,112 treasury shares); (2) BEM Investment Pte Ltd was the wholly-owned subsidiary of BEM Holdings Pte Ltd. The undertaking shareholders, who were natural persons, were family members of the three founders; (3) Discrepancy between the listed amounts and the total is due to rounding.

Source: HTL International, *Scheme Document*, August 8, 2016, 16.

Exhibit 6: HTL International HOldings Ltd, balance sheet

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **(US$ '000)** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** |
| **ASSETS** |  |  |  |  |  |  |
| **Current assets** |  |  |  |  |  |  |
| Cash and cash equivalents | 57,214 | 88,111 | 76,679 | 70,801 | 35,815 | 42,487 |
| Trade and other receivables | 54,826 | 61,822 | 62,778 | 66,009 | 52,844 | 49,970 |
| Inventories | 162,088 | 169,442 | 206,167 | 154,783 | 147,898 | 133,212 |
| Tax recoverable | 292 | 366 | 392 | 406 | 38 |  |
| Deposits | 5,771 | 4,834 | 4,946 | 5,213 | 4,826 | 5,134 |
| Prepayments | 4,712 | 6,265 | 7,425 | 6,053 | 6,565 | 4,315 |
| Derivative financial instruments |  |  |  |  | 282 |  |
| Other current assets |  | 2,222 |  |  |  |  |
|  | 284,903 | 333,062 | 358,387 | 303,265 | 248,268 | 235,118 |
| **Non-current assets** |  |  |  |  |  |  |
| Corporate club memberships |  |  |  |  |  |  |
| Property, plant, and equipment | 47,513 | 53,369 | 48,999 | 43,698 | 41,687 | 44,044 |
| Intangibles assets | 13,520 | 11,612 | 10,703 | 10,436 | 8,922 | 7,849 |
| Deferred income tax assets | 6,640 | 5,360 | 5,789 | 5,287 | 5,065 | 2,631 |
| Other receivables |  |  | 2,194 | 1,602 | 688 | 342 |
|  | 67,673 | 70,341 | 67,685 | 61,023 | 56,362 | 54,866 |
| **Total assets** | **352,576** | **403,403** | **426,072** | **364,288** | **304,630** | **289,984** |
| **LIABILITIES** |  |  |  |  |  |  |
| **Current liabilities** |  |  |  |  |  |  |
| Trade and other payables | 69,915 | 85,429 | 86,364 | 83,975 | 83,181 | 70,612 |
| Current income tax liabilities | 3,270 | 3,369 | 1,705 | 1,224 | 5,012 | 1,147 |
| Derivative financial instruments | 3,943 | 0 | 1,747 | 2,038 | 0 | 3,483 |
| Bank loans | 45,850 | 64,205 | 62,055 | 45,124 | 13,094 | 5,286 |
| Bills payable | 35,176 | 47,298 | 76,258 | 49,531 | 22,857 | 42,985 |
| Finance lease | 9 | 20 | 0 | 0 | 0 | 0 |
| Provision for warranty | 2,222 | 4,146 | 4,249 | 4,092 | 5,403 | 2,741 |
|  | 160,385 | 204,467 | 232,378 | 185,984 | 129,547 | 126,254 |
| **Non-current liabilities** |  |  |  |  |  |  |
| Bank loans | 18,629 | 29,729 | 20,348 | 3,134 | 113 | 0 |
| Finance lease | 9 | 29 | 0 | 0 | 0 | 0 |
| Deferred income tax liabilities | 1,272 | 1,366 | 1,272 | 1,370 | 994 | 771 |
|  | 19,910 | 31,124 | 21,620 | 4,504 | 1,107 | 771 |
| **Total liabilities** | **180,295** | **235,591** | **253,998** | **190,488** | **130,654** | **127,025** |
| **NET ASSETS** | **172,281** | **167,812** | **172,074** | **173,800** | **173,976** | **162,959** |
| **EQUITY** |  |  |  |  |  |  |
| Share capital | 67,982 | 67,982 | 67,982 | 67,982 | 67,982 | 67,982 |
| Treasury shares | (5,777) | (5,107) | (4,670) | (4,078) | (3,945) | (5,062) |
| Non-distributable reserves | 22,609 | 29,521 | 29,385 | 31,674 | 29,786 | 21,750 |
| Retained earnings | 87,467 | 74,645 | 78,528 | 77,366 | 79,301 | 77,456 |
|  | 172,281 | 167,041 | 171,225 | 172,944 | 173,124 | 162,126 |
| Non-controlling interest | 0 | 771 | 849 | 856 | 852 | 833 |
| **Total equity** | **172,281** | **167,812** | **172,074** | **173,800** | **173,976** | **162,959** |
| **Total equity and liabilities** | **352,576** | **403,403** | **426,072** | **364,288** | **304,630** | **289,984** |

Source: HTL International Holdings Ltd, *Annual Report 2012: Adapting to a Changing World*, accessed July 3, 2017, www.htlinternational.com/annual-reports/pdf/3562b6\_htlintlannualreport2012.pdf; HTL International Holdings Ltd, *Annual Report 2013: Sharpening Our Focus*, accessed July 3, 2017, www.htlinternational.com/annual-reports/pdf/ca5394\_ar2013.pdf; HTL International Holdings Ltd, *Annual Report 2014: Moving Up the Value Chain*, accessed July 3, 2017, www.htlinternational.com/annual-reports/pdf/f04925\_ar2014.pdf; and HTL International Holdings Ltd, *Annual Report 2015: Seizing Opportunities to Create Value*, accessed July 3, 2017, www.htlinternational.com/annual-reports/pdf/0396bd\_htlannualreport2015.pdf.

Exhibit 7: HTL International Holdings Ltd, main markets by sales turnover

|  |  |  |
| --- | --- | --- |
| **(in US$ ’000)** | **2014** | **2015** |
| Asia (excluding China) | 77,235 | 65,450 |
| Europe | 233,152 | 202,268 |
| China (including Hong Kong) | 8,087 | 11,719 |
| North America | 101,930 | 101,782 |
| Australia and New Zealand | 78,472 | 72,525 |
| Others | 1,701 | 1,108 |
| Total | 500,577 | 454,852 |

Source: HTL International Holdings Ltd, *Annual Report 2015: Seizing Opportunities to Create Value*, 18, accessed July 3, 2017, www.htlinternational.com/annual-reports.aspx.

Exhibit 8: DIscounted cash flow valuation assumptions

Growth in Revenue (%)

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Fiscal year ending December 31st** | **2016F** | **2017F** | **2018F** | **2019F** | **2020F** | **2021F** | **2022F** | **2023F** | **2024F** | **2025F** |
| Europe | (13.2) | (9.9) | (6.6) | (3.3) | 0.0 | 11.2 | 11.2 | 4.2 | 4.3 | 4.3 |
| Asia  (excluding China) | (15.3) | (11.4) | (7.6) | (3.8) | 0.0 | 9.1 | 9.1 | 6.5 | 6.7 | 6.7 |
| North America | (0.1) | (0.1) | (0.1) | 0.0 | 0.0 | 13.6 | 13.6 | 3.9 | 3.9 | 3.9 |
| Australia and New Zealand | (7.6) | (5.7) | (3.8) | (1.9) | 0.0 | 13.1 | 13.1 | 4.8 | 4.8 | 4.8 |
| China  (including Hong Kong) | 14.5 | 14.5 | 14.5 | 14.5 | 14.5 | 15.1 | 15.1 | 8.3 | 8.2 | 8.3 |
| Others | (12.4) | (12.4) | (12.4) | (12.4) | (12.4) | (12.4) | (12.4) | (12.4) | (12.4) | (12.4) |

Note: F = forecasted.

* The revenue of HTL International Holdings Ltd (HTL) was segmented based on its operating geographies. Historical revenue (2010–2015) from Europe, Asia (excluding China), North America, and Australia and New Zealand had been on the decline, while China had been growing rapidly.
* **Europe, Asia (excluding China), North America, and Australia and New Zealand**: The growth rates for 2016 were based on one-year historical revenue growth from 2014 to 2015. Revenues were forecasted to change from negative growth to zero growth from 2016 to 2020. Based on regional furniture industry forecasts from 2021 to 2022, revenues were projected to experience supernormal growth during that period. From 2023 to 2025, revenue growths were pegged to each region’s growth in gross domestic product (GDP).
* **China**: A five-year historical average revenue growth was used to forecast 2016–2020. Growth rates from China’s furniture industry forecasts were applied from 2021 to 2022. From 2023 to 2025, growth rates were pegged to growth in China’s GDP.
* Revenues were modelled using a five-year historical moving average.

Exhibit 8 (continued)

Cost of Goods Sold, Other Operating Income, and Operating Expenses, as Percentage of Revenue (%)

| **Fiscal year ending December 31st** | **2016F** | **2017F** | **2018F** | **2019F** | **2020F** | **2021F** | **2022F** | **2023F** | **2024F** | **2025F** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| (−) Cost of goods sold | 67.2 | 67.2 | 67.2 | 67.2 | 67.2 | 67.2 | 67.2 | 67.2 | 67.2 | 67.2 |
| (+) Other operating income | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 |
| (−) Selling, marketing, and distribution expenses | 24.9 | 24.9 | 24.9 | 24.9 | 24.9 | 24.9 | 24.9 | 24.9 | 24.9 | 24.9 |
| (−) Administrative expenses | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 |
| (−) Other operating expenses | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |

Note: F = forecasted.

* Cost of goods sold (COGS), other operating income, and operating expenses were projected based on the five-year moving average of each metric’s percentage of revenue.
* The following metrics were projected based on the five-year moving average of each metric’s percentage of revenue or COGS:
  + capital expenditures were 1.2 per cent of revenue
  + property, plant, and equipment (PPE) were 1 per cent of revenue
  + receivables were 11.4 per cent of revenue
  + inventories were 47.6 per cent of COGS
  + payables were 23.4 per cent of COGS
  + depreciation was 13.9 per cent of PPE
* The terminal free cash flow at fiscal year 2025 was obtained assuming a constant growth rate of 2 per cent.
* Other pertinent information relating to the weighted average cost of capital was as follows:
  + HTL’s target equity to firm value 81.00%
  + HTL’s target debt to firm value 19.00%
  + HTL’s pre-tax cost of debt 2.00%
  + HTL’s levered equity beta 0.42
  + 10-year US Treasury bond yield 1.75%
  + Corporate tax rate 17.00%
  + Asia (excluding China), equity premium 8.01%
  + Europe, equity risk premium 7.39%
  + China (including Hong Kong), equity risk premium 6.08%
  + North America, equity risk premium 6.00%
  + Australia and New Zealand, equity risk premium 6.00%
  + Others, equity risk premium 3.97%

Source: Created by the case authors based on case Exhibits 4 and 6; Aswath Damodaran, “Country Default Spreads and Risk Premiums,” March 2016, accessed March 18, 2016, http://pages.stern.nyu.edu/~adamodar/New\_Home\_Page/datafile/ctryprem.html.

Exhibit 9: DIVIDEND DISCOUNT MODEL assumptions

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2011** | **2012** | **2013** | **2014** | **2015** |
| Dividends per share | SG$0.01 | SG$0.005 | — | SG$0.01 | — |

Note: The table provides actual dividends paid.

Dividends were projected by applying a payout ratio of 26.5 per cent to the net income in the discounted cash flow model.

The terminal dividend at fiscal year 2025 was obtained assuming a constant growth rate of 2 per cent. A terminal growth rate of 2 per cent was assumed.

Source: Source: HTL International Holdings Ltd, *Annual Report 2012: Adapting to a Changing World*, accessed July 3, 2017, www.htlinternational.com/annual-reports/pdf/3562b6\_htlintlannualreport2012.pdf; HTL International Holdings Ltd, *Annual Report 2013: Sharpening Our Focus*, accessed July 3, 2017, www.htlinternational.com/annual-reports/pdf/ca5394\_ar2013.pdf; HTL International Holdings Ltd, *Annual Report 2014: Moving Up the Value Chain*, accessed July 3, 2017, www.htlinternational.com/annual-reports/pdf/f04925\_ar2014.pdf; and HTL International Holdings Ltd, *Annual Report 2015: Seizing Opportunities to Create Value*, accessed July 3, 2017, www.htlinternational.com/annual-reports/pdf/0396bd\_htlannualreport2015.pdf.

Exhibit 10: REgional Competitors, Income Statements (2015)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **SGD millions** | | | | **MYR millions** |
|  | **Design Studio Group Ltd** | **Koda Ltd** | **Lorenzo International Ltd** | **Versalink Holdings Ltd** | **Latitude Tree Holdings Berhad** |
| Year ended, 2015 | December | June | December | February | June |
| Sales | 166.93 | 62,036.35 | 53,752.35 | 23,053.82 | 710.00 |
| COGS including D&A | 132.36 | 47,277.09 | 34,359.36 | 15,030.25 | 592.11 |
| **Gross Income** | **34.56** | **14,759.26** | **19,392.99** | **8,023.56** | **117.89** |
| SG&A expenses | 14.40 | 14,698.96 | 31,881.46 | 5,924.64 | 34.96 |
| Other operating expenses | 0.00 | 1,270.25 | 5,985.93 | 0.00 | 0.00 |
| **EBIT (Operating Income)** | **20.16** | **(1,209.95)** | **(18,474.40)** | **2,098.92** | **82.93** |
| Non-operating income, net | (0.37) | 1,894.23 | 1,994.84 | 392.95 | 8.91 |
| Interest expense | 0.00 | 229.40 | 932.61 | 146.92 | 3.03 |
| Unusual expenses, net | 0.00 | 807.51 | 642.74 | 1,316.50 | 0.35 |
| **Pre-Tax Income** | **19.80** | **(352.63)** | **(18,054.90)** | **1,028.44** | **88.45** |
| Income taxes | 2.95 | 1,026.42 | 710.61 | 796.69 | 10.20 |
| Other after-tax adjustments | 0.00 | 6.55 | — | — | 0.00 |
| **Consolidated Net Income** | **16.85** | **(1,372.50)** | **(18,765.51)** | **231.76** | **78.25** |
| Minority interest | (0.03) | (1,904.72) | — | 0.00 | 0.44 |
| **Net Income** | **16.88** | **532.22** | **−18,765.51** | **231.76** | **77.81** |
| Discontinued operations |  |  |  |  |  |
| Net income available to common shareholders | 16.88 | 532.22 | (18,765.51) | 231.76 | 77.81 |
| EPS (recurring) (US$) | 0.06 | 0.01 | (0.06) | 0.01 | 0.80 |
| EPS (diluted) (US$) | 0.06 | 0.01 | (0.06) | 0.00 | 0.80 |
| Earnings persistence (per cent) | 80.67 | 75.81 | 67.05 | 90.24 | 78.46 |
| Dividends per share (US$) | 0.03 | 0.00 | — | 0.01 | 0.12 |
| EBITDA | 24.23 | 461.43 | (15,533.79) | 2,906.79 | 100.89 |

Design Studio Group Ltd was established in 1992 and provided customized fit-out solutions to customers in Malaysia, Thailand, and China. It listed on the Singapore Exchange in January 2004.

Koda Ltd was founded in 1972. It was an original design manufacturer that exported to customers located in more than 50 countries. It listed on the Singapore Exchange in January 2002.

Lorenzo International Ltd started in 1983 as a branded lifestyle furniture retailer and an original design manufacturer. It established its brand presence through wholly owned stores and licensed retailing stores around the world. It listed on the Singapore Exchange in May 2006.

Versalink Holdings Ltd was founded in 1991. It exported 80 per cent of its office furniture to various countries around the world and listed on the Singapore Exchange in September 2014.

Latitude Tree Holdings Berhad was incorporated in 1988. It exported 99 per cent of its high- and medium-end dining and bedroom sets to the United States, Canada, Europe, South Africa, Australia, and the Middle East. It listed on the Kuala Lumpur Stock Exchange in January 2000.

Notes: SG$ = SGD = Singapore dollars; RM= MYR= Malaysian ringgit.

COGS = cost of goods sold; D&A = depreciation and amortization; EBIT = earnings before interest and taxes; EBITDA = earnings before interest, taxes, depreciation, and amortization; EPS = earnings per share;

SG&A = selling, general, and administrative expenses.

Source: Design Studio Group Ltd., 2015 Income Statement, December 31, 2015; Koda Ltd, 2015 Income Statement, June 30, 2015; Lorenzo International Ltd, 2015 Income Statement, December 31, 2015; Versalink Holding Ltd, 2015 Income Statement, February 28, 2015; and Latitude Tree Holdings Berhad, 2015 Income Statement, June 30, 2015. All statements accessed April 27, 2018, FactSet.

Exhibit 11: regional competitors, Balance Sheets (2015)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **SGD millions** | | | | **MYR millions** |
|  | **Design Studio Group Ltd** | **Koda Ltd** | **Lorenzo International Ltd** | **Versalink Holdings Ltd** | **Latitude Tree Holdings Berhad** |
| Year ended, 2015 | December | June | December | February | June |
| **Assets** |  |  |  |  |  |
| Cash and short-term investments | 54.11 | 4,218.58 | 3,823.30 | 10,163.77 | 176.59 |
| Short-term receivables | 40.50 | 7,113.56 | 5,889.78 | 3,097.21 | 44.79 |
| Inventories | 13.69 | 9,894.08 | 17,751.18 | 5,078.86 | 124.19 |
| Other current assets | 4.90 | 4,786.81 | 824.93 | 488.72 | 1.12 |
| **Total Current Assets** | **113.19** | **26,013.03** | **28,289.19** | **18,828.55** | **346.68** |
| Net property, plant, and equipment | 18.54 | 15,618.05 | 21,038.08 | 9,890.54 | 231.12 |
| Total investments and advances | 0.00 | 1,279.18 | 0.00 | — | — |
| Long-term notes receivable | 14.17 | — | 574.73 | — | 0.08 |
| Intangible assets | 2.74 | 0.00 | 0.00 | 0.00 | — |
| Deferred tax assets | 0.32 | 28.28 | 7.15 | — | 0.99 |
| Other assets | 0.00 | 281.42 | 1,242.96 | — | 16.72 |
| **Total Assets** | **148.97** | **43,219.96** | **51,152.10** | **28,719.09** | **595.59** |
| **Liabilities and Shareholders' Equity** | |  |  |  |  |
| Short-term debt and current portion of long-term debt | 0.00 | 4,070.47 | 18,914.45 | 783.08 | 76.80 |
| Accounts payable | 14.69 | 3,210.06 | 3,292.21 | 1,895.61 | 58.57 |
| Income tax payable | 2.75 | 285.46 | 61.36 | — | 7.57 |
| Other current liabilities | 24.99 | 5,245.96 | 12,690.88 | 1,498.60 | 28.02 |
| **Total Current Liabilities** | **42.42** | **12,811.95** | **34,958.89** | **4,177.29** | **170.97** |
| Long-term debt | 0.00 | 600.54 | 347.31 | 313.99 | 12.42 |
| Provision for risks and charges | 0.00 | — | — | — | 0.12 |
| Deferred tax liabilities | — | 604.58 | 190.42 | 431.73 | 2.32 |
| Other liabilities | 0.00 | 0.00 | 39.83 | — | 0.00 |
| **Total Liabilities** | **42.42** | **14,017.07** | **35,536.46** | **4,923.00** | **185.82** |
| Non-equity reserves |  |  |  | — |  |
| Common equity | 107.00 | 29,493.74 | 15,615.64 | 23,796.09 | 408.57 |
| **Total Shareholders' Equity** | **107.00** | **29,493.74** | **15,615.64** | **23,796.09** | **408.57** |
| Accumulated minority interest | (0.45) | (290.84) | — | — | 1.20 |
| **Total Equity** | **106.55** | **29,202.89** | **15,615.64** | **23,796.09** | **409.77** |
| **Total Liabilities and Shareholders' Equity** | **148.97** | **43,219.96** | **51,152.10** | **28,719.09** | **595.59** |
| **Per Share** |  |  |  |  |  |
| Book value per share | 0.41 | 0.36 | 0.05 | 0.18 | 4.20 |
| Tangible book value per share | 0.40 | 0.36 | 0.05 | 0.18 | 4.20 |
| Price to equity ratio | 7.41 | 18.02 | (0.31) | 96.48 | 8.61 |
| Price to book ratio | 1.17 | 0.34 | 0.38 | 0.92 | 1.63 |
| Price to sales ratio | 0.75 | 0.21 | 0.11 | 0.36 | 0.94 |
| EV/EBITDA ratio | 2.95 | 6.46 | 1.13 | 3.60 | 5.35 |

Notes: SG$ = SGD = Singapore dollars; RM= MYR= Malaysian ringgit.

EV = enterprise value; EBITDA = earnings before interest, taxes, depreciation, and amortization.

Source: Design Studio Group Ltd., 2015 Income Statement, December 31, 2015; Koda Ltd, 2015 Income Statement, June 30, 2015; Lorenzo International Ltd, 2015 Income Statement, December 31, 2015; Versalink Holding Ltd, 2015 Income Statement, February 28, 2015; and Latitude Tree Holdings Berhad, 2015 Income Statement, June 30, 2015. All statements accessed April 27, 2018, FactSet.

Exhibit 12: global competitors, Income Statements (2015)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **USD millions** | | | | **CNY millions** | **NOK millions** |
|  | **Bassett Furniture Industries Inc.** | **Dixie Group Inc.** | **Haverty Furniture Companies Inc.** | **La-Z-Boy Incorporated** | **Dong Yi Ri Sheng Home Decoration Group Co. Ltd** | **Ekornes ASA** |
| Year ended, 2015 | November | December | December | April | December | December |
| Sales | 430.93 | 422.48 | 805.16 | 1,425.40 | 2,191.77 | 3,262.65 |
| COGS including D&A | 189.37 | 316.56 | 374.09 | 920.10 | 1,377.63 | 2,870.59 |
| **Gross Income** | **241.56** | **105.93** | **431.06** | **505.29** | **814.14** | **392.06** |
| SG&A expenses | 214.57 | 100.42 | 385.12 | 401.46 | 682.78 | — |
| Other operating expenses | — | 0.21 | — | — | (3.27) | 0.00 |
| **EBIT (Operating Income)** | **26.99** | **5.29** | **45.95** | **103.83** | **134.63** | **392.06** |
| Non-operating income, net | (0.36) | (1.18) | 1.14 | 1.73 | 20.08 | (5.85) |
| Interest expense | 0.61 | 4.16 | 2.62 | 0.52 | 1.31 | 14.70 |
| Unusual expenses, net | (5.85) | 2.95 | (0.80) | (0.59) | 0.00 | 93.28 |
| **Pre-Tax Income** | **31.87** | **(2.99)** | **45.28** | **105.63** | **153.39** | **278.24** |
| Income taxes | 11.44 | (0.71) | 17.49 | 36.95 | 34.20 | 94.09 |
| Other after-tax adjustments | — | 0.00 |  | (0.40) | (3.48) | — |
| **Consolidated Net Income** | **20.43** | **(2.28)** | **27.80** | **68.28** | **115.71** | **184.14** |
| Minority interest | — | — |  | 1.20 | 17.34 | — |
| **Net Income** | **20.43** | **(2.28)** | **27.79** | **67.08** | **98.37** | **184.14** |
| Discontinued operations |  | (0.15) |  | 3.30 |  |  |
| Net income available to common shareholders | 20.43 | (2.43) | 27.79 | 70.38 | 98.37 | 184.14 |
| EPS (recurring) (US$) | 1.51 | (0.02) | 1.19 | 1.34 | 0.39 | 6.77 |
| EPS (diluted) (US$) | 1.88 | (0.16) | 1.22 | 1.34 | 0.39 | 5.00 |
| Earnings per share (US$) | 82.33 | 92.99 | 94.22 | 82.18 | 9.41 | 86.47 |
| Dividends per share (US$) | 0.34 | — | 0.36 | 0.28 | 0.40 | 4.00 |
| EBITDA | 37.67 | 19.41 | 71.70 | 126.12 | 173.19 | 538.79 |

Notes:

¥= CNY= Chinese yuan renminbi; kr = NOK = Norwegian krone.

COGS = cost of goods sold; D&A = depreciation and amortization; SG&A = selling, general, and administrative expenses; EBIT = earnings before interest and taxes; EPS = earnings per share; EBITDA = earnings before interest, taxes, depreciation, and amortization. Bassett Furniture Industries Inc. started in 1902 as Bassett Furniture Company. It had more than 100 retail locations in the United States, Puerto Rico, and Canada. It developed home furnishings, including upholstery, beds, dining room furniture, home storage, and home entertainment. It listed on NASDAQ in January 1978.

Dixie Group Inc. began in the 1920s. Its business was concentrated in the higher-end segments of soft floor coverings (carpets and rugs). It was listed on NASDAQ.

Haverty Furniture Companies Inc. was founded in 1885. It was one of the top furniture retailers in the southern and central United States. It listed on the New York Stock Exchange in October 1929.

La-Z-Boy Incorporated was started in 1928. It made home furniture, including recliners, sofas, stationary chairs, lift chairs, and sleeper sofas. It had outlets in the United States and Canada, and exported to the United Kingdom, Australia, Germany, Indonesia, Italy, Japan, Mexico, New Zealand, Turkey, and South Africa. It was listed on the New York Stock Exchange.

Dong Yi Ri Sheng Home Decoration Group Co. Ltd, a China-based home improvement provider, was founded in 1997. It listed on the Shenzhen Stock Exchange in January 2014.

Ekornes ASA was founded in 1934. It was principally known for its luxury line of reclining armchairs and sofas. It listed on the Oslo Stock Exchange in 1995.

Source: Bassett Furniture Industries Inc., 2015 Income Statement, November 30, 2015; Dixie Group Inc., 2015 Income Statement, December 31, 2015; Haverty Furniture Companies Inc., 2015 Income Statement, December 31, 2015; La-Z-Boy Incorporated, 2015 Income Statement, April 30, 2015; Dong Yi Ri Sheng Home Decoration Group Co. Ltd, 2015 Income Statement, December 31, 2015; Ekornes ASA, 2015 Income Statement, December 31, 2015. All statements accessed April 27, 2018, FactSet.

Exhibit 13: global competitors, Balance Sheets (2015)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **USD millions** | | | | **CNY millions** | **NOK millions** |
|  | **Bassett Furniture Industries Inc.** | **Dixie Group Inc.** | **Haverty Furniture Companies Inc.** | **La-Z-Boy Incorporated** | **Dong Yi Ri Sheng Home Decoration Group Co. Ltd** | **Ekornes ASA** |
| Year ended, 2015 | November | December | December | April | December | December |
| **Assets** |  |  |  |  |  |  |
| Cash and short-term investments | 59.39 | 0.28 | 91.39 | 125.87 | 942.74 | 229.56 |
| Short-term receivables | 21.20 | 50.81 | 5.95 | 158.55 | 176.59 | 536.18 |
| Inventories | 59.90 | 115.15 | 108.90 | 156.79 | 161.94 | 494.90 |
| Other current assets | 6.80 | 3.36 | 12.48 | 35.25 | 49.77 | — |
| **Total Current Assets** | **147.28** | **169.60** | **218.71** | **476.45** | **1,331.05** | **1,260.63** |
| Net property, plant, and equipment | 96.10 | 101.15 | 229.28 | 174.04 | 259.05 | 883.83 |
| Total investments and advances | 3.01 | — | 0.00 | 43.30 | 125.46 | 9.70 |
| Long-term notes receivable | — | — | 0.66 |  | — | 11.11 |
| Intangible assets | 17.68 | 6.46 | — | 20.62 | 341.04 | 283.79 |
| Deferred tax assets | 17.84 | 23.10 | 27.43 | 35.07 | 5.76 | 120.57 |
| Other assets | 4.99 | 16.29 | 5.36 | 25.12 | 54.82 | 0.00 |
| **Total Assets** | **286.91** | **316.59** | **481.43** | **774.60** | **2,117.17** | **2,569.63** |
| **Liabilities and Shareholders' Equity** |  |  |  |  |  |  |
| Short-term debt and current portion of long-term debt | 5.27 | 10.14 | 3.05 | 0.40 | 20.00 | 308.66 |
| Accounts payable | 20.92 | 29.49 | 27.82 | 53.47 | 291.40 | 143.29 |
| Income tax payable | — | — | 0.00 | — | 69.00 | 63.89 |
| Other current liabilities | 53.66 | 31.33 | 63.10 | 101.03 | 747.84 | 611.19 |
| **Total Current Liabilities** | **79.85** | **70.96** | **93.96** | **154.89** | **1,128.23** | **1,127.03** |
| Long-term debt | 8.50 | 115.91 | 50.07 | 0.43 | — | 0.00 |
| Provision for risks and charges | 12.69 | 0.28 | 3.17 | 31.49 | 1.26 | 8.50 |
| Deferred tax liabilities | 4.36 | 18.37 | 10.18 | — | — | 9.56 |
| Other liabilities | 4.13 | 20.27 | 22.30 | 54.69 | 0.00 | 85.37 |
| **Total Liabilities** | **109.54** | **225.78** | **179.70** | **241.50** | **1,129.49** | **1,230.46** |
| Non-equity reserves | — | — | — | — | 0.00 | — |
| Common equity | 177.37 | 90.80 | 301.74 | 524.15 | 953.23 | 1,339.17 |
| **Total Shareholders' Equity** | **177.37** | **90.80** | **301.70** | **524.15** | **953.23** | **1,339.17** |
| Accumulated minority interest | — | — | — | 8.95 | 34.44 | — |
| **Total Equity** | **177.37** | **90.80** | **301.74** | **533.10** | **987.67** | **1,339.17** |
| **Total Liabilities and Shareholders' Equity** | **286.91** | **316.59** | **481.43** | **774.60** | **2,117.17** | **2,569.63** |
| **Per Share** |  |  |  |  |  |  |
| Book value per share | 16.25 | 5.67 | 13.69 | 10.33 | 3.82 | 36.36 |
| Tangible book value per share | 14.63 | 5.27 | 13.69 | 9.92 | 2.45 | 28.66 |
| Price to equity ratio | 13.30 | −33.50 | 17.10 | 17.50 | 83.90 | 19.40 |
| Price to book ratio | 1.50 | 0.90 | 1.60 | 2.30 | 8.40 | 2.70 |
| Price to sales ratio | 0.60 | 0.20 | 0.60 | 0.90 | 3.70 | 1.10 |
| EV/EBITDA ratio | 9.30 | 12.90 | 8.30 | 10.70 | 58.30 | 8.40 |

Notes: ¥= CNY= Chinese yuan renminbi; kr = NOK = Norwegian krone.

EV = enterprise value; EBITDA = earnings before interest, taxes, depreciation, and amortization.

Source: Bassett Furniture Industries, Inc., 2015 Income Statement, November 30, 2015; Dixie Group Inc., 2015 Income Statement, December 31, 2015; Haverty Furniture Companies Inc., 2015 Income Statement, December 31, 2015; La-Z-Boy Incorporated, 2015 Income Statement, April 30, 2015; Dong Yi Ri Sheng Home Decoration Co. Ltd, 2015 Income Statement, December 31, 2015; Ekornes ASA, 2015 Income Statement, December 31, 2015. All sites accessed April 27, 2018, FactSet.

Exhibit 14: precedent transactions

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Transaction Details** | | | **Acquisition Financials (US$ million)** | | | **Valuation** | |
| **Target** | **Announced Date** | **Bidder** | **Enterprise Value** | **Implied Equity Value** | **Revenue** | **Enterprise Value to Revenue** | **Price to Share** |
| Euro Holdings Berhad | 2014-09-02 | Consortium of private investors | 16.3 | 11.3 | 29.6 | 0.6x | 0.4x |
| Zengcheng Weihua Medium-Density Fiberboard Manufacturing Co. Ltd | 2013-05-22 | Consortium of private investors | 12.2 | 13.0 | 15.5 | 0.8x | 0.8x |
| BP Ergo Ltd | 2012-08-13 | HNI Corporation | 26.1 | 26.1 | 19.0 | 1.4x | 1.4x |
| Dunlopillo (Malaysia) Sdn. Bhd | 2011-11-20 | Pikolin S.A. | 22.2 | 22.2 | 33.5 | 0.7x | 0.7x |
| Viscount Plastics Pty Ltd | 2011-09-08 | Pact Group Holdings Ltd | 164.6 | 158.6 | 203.8 | 0.8x | 0.8x |
| Passion Holdings Ltd | 2011-03-09 | Decorative Arts Holdings Ltd | 59.5 | 80.1 | 103.6 | 0.6x | 0.8x |
| Ningbo JF Furniture Co. Ltd | 2011-03-03 | Consortium of private investors | 13.1 | 13.1 | 7.8 | 1.7x | 1.7x |

Source: Mergermarket, accessed April 27, 2018.

Endnotes

1. This exercise has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of HTL International Holdings Ltd or any of its employees. [↑](#endnote-ref-1)
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5. Ideal Homes International Ltd, *Possible Offer Announcement*, January 7, 2016, 3. [↑](#endnote-ref-5)
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8. “Investor Relations, Milestones,” op. cit. [↑](#endnote-ref-8)
9. Ibid. [↑](#endnote-ref-9)
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14. Carolyn Lim, “SCS Sets Cut-Off Price for Tender Tranche at 85 Cents,” *Business Times*, October 24, 1991, 3. [↑](#endnote-ref-14)
15. “Strike Price for HTL Tender Shares Confirmed at $1.02,” *Business Times*, October 5, 1993, 11. [↑](#endnote-ref-15)
16. “Hwa Tat Lee Almost Doubles Issue Price in Trading Debut,” *Business Times*, September 28, 1993, 7. [↑](#endnote-ref-16)
17. “Investor Relations, Milestones,” op. cit. [↑](#endnote-ref-17)
18. HTL International’s financial statements were recorded in SGD until 2010, after which USD were used. [↑](#endnote-ref-18)
19. “Hwa Tat Lee Reports 43.8% Fall in Net Earnings,” *Straits Times*, March 30, 1995. [↑](#endnote-ref-19)
20. “Hwa Tat Lee 1995 Net Loss at S$3.63 Million,” Reuters News, March 29, 1996, accessed July 11, 2018. [↑](#endnote-ref-20)
21. “Corporate Results,” *Business Times*, April 1, 1997, 18. [↑](#endnote-ref-21)
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23. “Hwa Tat Lee Sinks into the Red,” Reuters News, March 31, 1999. [↑](#endnote-ref-23)
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40. Ibid. [↑](#endnote-ref-40)
41. “HTL Privatization: Can It Succeed (at $1 a Share)?,” op. cit. [↑](#endnote-ref-41)
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