

## Management Discussion & Analysis



### “ *Creating Good Times, Celebrating the Joy of True Togetherness*”

*In 2023, we celebrated the 150<sup>th</sup> anniversary of the Heineken® brand, the world’s no. 1 international premium beer. Forget the candles, this was about honouring how our consumers celebrate Good Times. Freddy Heineken once said, “I don’t sell beer. I sell ‘gezelligheid’ or ‘Good Times’,” and that’s what Heineken® is still all about.*

”

Roland Bala  
Managing Director

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### INTRODUCTION

Heineken Malaysia Berhad's business is all about transcending borders and connecting people through good times, one way or another. Indeed, we can often find beer at the center of social connections, and this is why our purpose, *Brew the Joy of True Togetherness to Inspire a Better World*, defines everything we do.

After a strong rebound in 2022, expectations for 2023 were high, however it proved to be a more challenging year. I am proud of the resilience of our business and our people, as we pushed flat out to deliver a commendable performance despite the challenges. We have made good progress on our EverGreen strategy and will continue to accelerate initiatives designed to help us meet our strategic goals not only for the short term, but also with the aim to future proof our business.

We had to adapt to the evolving environment with challenges that included global macroeconomic uncertainties, geopolitical tensions, a weakening Ringgit, rising costs of living, and softening consumer sentiments. These factors contributed to a market correction in 2023, which saw market demand gradually normalise as compared against the strong rebound we saw in 2022 after pandemic-related restrictions were lifted. It is important to note that despite the market correction, our strategy to enable balanced growth is bearing fruits, with our performance still above the pre-pandemic levels of 2019.

We are taking bold moves under the EverGreen strategy. Indeed, we have built strong momentum across our five key strategic pillars: emphasising consumer and customer-centricity as we shape the future of beer and beyond to drive superior growth; growing productivity and a cost conscious culture with an aim to unlock efficiencies that can be reinvested to power our growth engine; raising the bar on sustainability and responsibility to deliver our net zero ambition; boosting digitalisation of our processes to become the best-connected brewer; and developing our talent and capabilities to strengthen a culture of high performance.

With EverGreen, we are future-proofing HEINEKEN Malaysia to be a continually renewing, learning, and growing company to deliver superior and balanced growth. The following is a review of our business and financial performance, the highlights of our commercial campaigns, the progress of our sustainability goals, as well as the outlook for 2024.

### OUR PERFORMANCE

Compared with our 2022 performance, Group revenue decreased by 8%, mainly due to weak consumer sentiment attributed to growing macroeconomic concerns. Comparatively, the Group had a strong base in 2022 following the re-opening of the economy at the end of the Covid-19 pandemic. Post the strong rebound in 2022, the Group views its 2023 performance as a form of market correction.

Group Profit Before Tax declined by 14% to RM511 million, primarily due to lower revenue. Comparatively, the Group's net profit for the year decreased by 6% due to

the absence of the one-off Prosperity Tax in the year under review. Corresponding with the above, earnings per share decreased from RM1.37 to RM1.28 per share.

Net cash from operating activities for FY2023 increased by 25% to RM584 million attributed to overall favorable working capital movement. The Group has improved its capital efficiency through entering into a factoring arrangement in FY2023.

Net assets for FY2023 was recorded at RM459 million, 6% lower versus FY2022 mainly due to decline in Group business performance during the year.

Capital expenditure for FY2023 decreased by 28% to RM143 million mainly due to lower spend incurred. The Group recorded a higher spend in FY2022 driven by investment in the brewery upgrade which has been completed in FY2023.

The Group paid a total of RM1.3 billion in excise, custom duties, and sales tax for the year. For income taxes, the Group has incurred a total of RM124 million, translated into an effective tax rate of 24.3%.

For FY2023, the Board has declared and paid a single tier interim dividend of 40 sen per stock unit on 10 November 2023 and proposed a single tier final dividend of 88 sen per stock unit. Subject to approval of the shareholders at the forthcoming Annual General Meeting, the single tier final dividend will be paid on 25 July 2024 to shareholders registered at the close of business on 28 June 2024. The dividend payout ratio for the year is approximately 100%.

### GROUP FINANCIAL PERFORMANCE FOR FY2023

Revenue

**RM2.64**  
billion

Profit Before Tax

**RM511**  
million

Net Profit

**RM387**  
million

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### DRIVE PREMIUM GROWTH

In 2023, we continued investing in our core brands and innovations to excite our consumers. The Heineken® brand, celebrating its 150<sup>th</sup> anniversary. As the Heineken® brand turned 150 this year, Heineken® invited consumers to showcase their unique ways of celebrating good times. Heineken® collaborated with local pop culture icons to blend global inspirations into local experiences to bring consumers extraordinary activations and limited-edition merchandise. Collaborations with local icons included content creator Jane Chuck with her fashion label Motherchuckers for an ultra-exclusive Heineken® 150 x Motherchuckers limited-edition collection, and Darkroom8 with the limited-edition Heineken® 150 x Darkroom8 reusable film camera accompanied by a special beer filter for fans to capture the good times.

Through the Work Responsibly campaign, Heineken® collaborated with global K-Drama Star Park Hyung Sik to raise awareness on the overworking culture in Malaysia and to remind everyone to work responsibly and to not let their social life down by 'ghosting their friends'. The campaign's 'Ghosted Bar' video received 1 Bronze lion at the 2023 Cannes Lions festival in the Film category, a true testament to a successful collaboration between the global and local teams. We extend our congratulations to all who played a crucial role in bringing these campaigns to life. A special thanks goes out to our agency partners, as together, we continue to unlock world-class, award-winning creativity. Cannes Lions is a

global event that awards the best of the best in the field of creativity, advertising, communication and related fields. Globally, Heineken® won 21 Lions in total.

Tiger Beer started the year with its 2023 Chinese New Year (CNY) festive campaign titled 'Cheers to Bold Beginnings'. The brand invited consumers to re-energise their inner Tiger for an even bolder tomorrow. Through the campaign, Tiger introduced 'Gan Gan Chong', meaning the spirit to breakthrough, as a blessing of boldness. Tiger partnered with three local artists to create a CNY song and music video, 'The Boldest Chase', inviting consumers to interact with the content and win exclusive prizes. Tiger has been on a journey of overcoming the odds since 1932, and the brand believes that much of its success is owed to its loyal fans. The brand brought to life an activation called 'Tiger Den' – dubbed as the home of all things Tiger – for fans to join the brand to celebrate its bold stride since the beginning and to continue roaring into the future. From learning more about Tiger's origins since the early 1900s to bask in the nostalgia of its evolution at Heritage Street, to going on a journey through a series of interactive experiences via AI at the AR-ffiti Street and Crystal Cold Room, the brand set itself apart as a distinctly Asian lager with the remarkable Tiger Den.

Guinness Malaysia's 2023 St. Patrick's celebration, 'Our Day to Remember', encouraged its fans to celebrate their loved ones – their true lucky charms – while commemorating the good times with Guinness. Fans celebrated the good times with Guinness with their lucky

charms at participating pubs and bars where they could join dance parades, enjoy and dance along to live music or participate in games to win exclusive Guinness merchandise. Guinness further elevated the St. Patrick's Day experience with the first-ever, Guinness St. Patrick's anthem. Through the anthem, fans could immortalise their memories in the form of a reel or video and post it on their social media platforms using the soundtrack. The Guinness Flavour By Fire event returned in 2023 with a bigger line-up of renowned chefs serving Guinness-infused flame-cooked foods. Visitors indulged in delectable bites at the event which took place in Sentul Depot, Kuala Lumpur and Fort Cornwallis, Penang, accompanied with live music and a variety of engaging activities.

Edelweiss Weekend Unwind came back to transform weekends with a series of fun activities over four weekends in Kuala Lumpur and Penang. Encouraging consumers to take a break from their busy schedules, guests were treated to a slew of fun experiences with an exciting programme packed with pop-up markets, workshops, music and experiential events headlined by local artists and personalities. The programme included activities like the Unwind Bar, featuring creative cocktail offerings by expert mixologists using Edelweiss Wheat Beer; fun activities by various local content creators and pop-up markets in collaboration with Pingmin Market and Hin Market.

Our brands continued to be recognised amongst Malaysia's most trusted and preferred brands. HEINEKEN Malaysia won four awards at the Putra Brand Awards and the Putra Aria Brand Awards 2023. Demonstrating continued excellence, we extended our winning streak at the prestigious Putra Brand Awards with Heineken® and Tiger Beer winning Gold, while Guinness took home a Bronze. Edelweiss marked a significant milestone by winning Bronze at the Putra Aria Brand Awards, its first since the brand's launch in Malaysia in 2021. With these wins, HEINEKEN Malaysia's cumulative award count is 43 since 2010.



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### SUSTAINABILITY HIGHLIGHTS

We are committed to create sustainable value for our stakeholders in a responsible way. In our EverGreen strategy, one of our key strategic priorities is to raise the bar on sustainability and responsibility. HEINEKEN's Brew a Better World sustainability strategy sets us on three important pathways:

- ▶ Path towards net zero impact
- ▶ Path towards inclusive, fair, and equitable company and world
- ▶ Path towards moderation and no harmful use



Our ESG Review section in this report provides a comprehensive overview of our Brew a Better World sustainability initiatives and progress. As we continue to embed sustainability across our business, we disclose and discuss our management of business risks, environmental risks, and climate risks. Our enhanced disclosures align with Bursa Malaysia's sustainability reporting requirements, the Global Reporting Initiative standards, Task Force on Climate-Related Financial Disclosures recommendations, and FTSE4Good Bursa Malaysia Index. Governed by a Sustainability Policy and operationalised through our Sustainability Committee, we report our progress quarterly to the Management Team and the Board of Directors. I am pleased to share that we have made significant strides in strengthening our sustainability practices. For more details, refer to the ESG Review section.

### ENVIRONMENTAL SUSTAINABILITY



- ▶ **-65%** carbon emissions (scope 1 & 2) in production vs 2018 baseline
- ▶ **100%** renewable electricity
- ▶ **Zero** waste to landfill
- ▶ **3.41 hl/hl** water consumption
- ▶ Balanced **223%** water used in our products

### SOCIAL SUSTAINABILITY



- ▶ **43%** women in Board of Directors
- ▶ **38%** women in Management Team
- ▶ **0** fatal accidents and serious injuries
- ▶ **100%** of people managers trained in inclusive leadership
- ▶ **RM26 million** raised for 8 institutions by Tiger Sin Chew Chinese Education Charity Concert
- ▶ **RM250,000** channeled to support community resilience projects under HEINEKEN Cares

### RESPONSIBLE CONSUMPTION



- ▶ **>10%** of Heineken® brand media spend on promoting responsible consumption
- ▶ **When You Drive, Never Drink**  
– Grab e-hailing promo codes for consumers

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We are pleased to report that we are making good progress against our Brew a Better World goals. Nevertheless, we continue exploring innovative solutions to accelerate our journey towards ensuring HEINEKEN Malaysia's sustainable growth for the future. HEINEKEN Malaysia strongly believes that its operations can only thrive if the planet and its surrounding communities thrive. Throughout the year, the Group was widely recognised for the progress we continue to make on our sustainability ambitions. Some key awards include:

- UN Global Compact Network Malaysia and Brunei (UNGCMYB) Forward Faster Sustainability Awards – HEINEKEN Malaysia won in the Water Resilience category, acknowledging the brewer's achievement in its Towards Healthy

Watersheds programme, which enabled it to fully balance water used in its products since 2020.

- Star Media Group Positive Impact Awards – HEINEKEN Malaysia was awarded the Most Outstanding ESG Initiative at the ESG Positive Impact Awards, besides winning Gold in the categories of Waste Management and Innovative Partnership in recognition of its Zero Waste to Landfill programme and Water Stewardship partnership respectively.
- PwC Malaysia Building Trust Awards – Heineken Malaysia Berhad was among the Top 20 finalists for PwC Malaysia's Building Trust Awards 2023 and received a special mention for the PwC Malaysia-Asia School of Business's Trust and Leadership Survey (FBM Mid 70 Index) category.

On Governance, our approach to risk management is detailed in our Statement on Risk Management and Internal Control on pages 104 to 110. Key risks relating to climate and our business are also further discussed in detail in our ESG Review section. The Group has established a strong risk management and internal control system, drawing from the Enterprise Risk Management and Internal Control Reference model. This system is an essential component of our HEINEKEN Business Framework. Within this framework, we have incorporated the HEINEKEN Risk Management Framework, which assists in identifying and addressing risks during strategy development and the pursuit of business objectives.



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### OUR OUTLOOK

With a soft beer market in 2023, we maintain a cautious approach and expect the business environment in 2024 to remain challenging. This alongside the rising cost of living, geopolitical uncertainties, and weakening Ringgit could have a negative impact on consumer sentiment and spending. We will continue to adopt an agile approach in delivering our 2024 ambition. This year, we will remain committed to our EverGreen strategy, focusing on delivering superior and balanced growth amidst these dynamic conditions. We welcome the stance taken by the Government not to increase excise duties on beer in its latest Budget 2024, as any hike in excise rates will drive greater demand for illicit alcohol. The Group will continue to monitor and support the authorities in addressing this issue through comprehensive efforts and promoting greater awareness in the market.



### ACKNOWLEDGEMENTS

I am pleased to welcome Niko van Cauwenberge as our new Supply Chain Director, who replaced Salima Bekoeva who has taken on a new role in the HEINEKEN APAC regional office. We also welcome Lukasz Kakol (Luke) as our new Digital & Technology Director, who replaced Janina Vriesekoop who has moved to HEINEKEN Spain. On behalf of the Group, I extend our sincere appreciation to Salima and Janina and wish them the best in their next assignments in the HEINEKEN Group. I am confident that we have two capable successors in Niko and Luke, and I look forward to working with both as a part of HEINEKEN Malaysia's Management Team.

I wish to put on record our gratitude to our shareholders, suppliers, distributors, customers, and consumers for their continued trust and support for our Company and brands. A special mention must also go to our employees, the One Strong Winning Team of HEINEKEN Malaysia. Without this team, we would not have been able to achieve such big wins. May we continue to Brew the Joy of True Togetherness to Inspire a Better World.

Thank you.

**Roland Bala**  
Managing Director  
20 March 2024