INTUITION
15 JUNE 2023

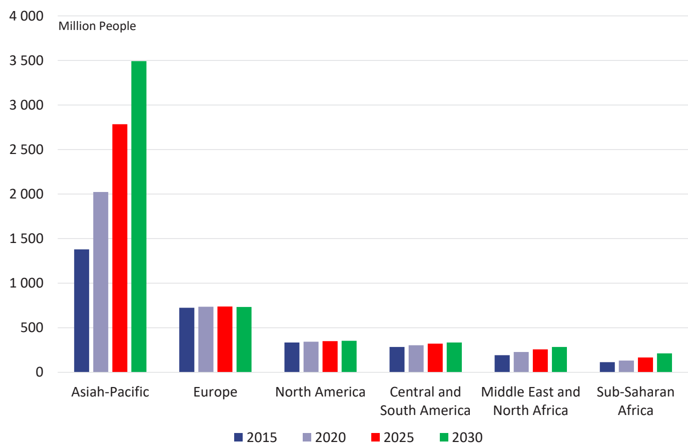
Heineken – Asia Uncaged

"There have been previous attempts to establish breweries here but on nothing approaching the scale of this venture and the fact that the Company has available the experience and reputation of two old established brewery interests in Europe with wide knowledge of tropical trade, should effectively ensure that practical brewing will be a feature form the start, while the knowledge and experience of Messrs Fraser and Neave as distributors should similarly ensure an avoidance of mistakes in marketing." 23 April 1931

Lebogang Malatji

The 1930s marked an era of significant technological advancements, exemplified by Amelia Earhart's groundbreaking transatlantic flight, the Golden Age of entertainment in Hollywood, the harrowing period of the Great Depression, and the rise of totalitarian regimes. Remarkably, amidst the anticipation of interplanetary habitation, hints of proto-totalitarianism, and rampant inflation, it becomes evident that certain aspects have remained largely unchanged over the decades. During this transformative period, through a joint venture of Messrs Fraser & Neave with Heineken, Tiger would emerge as a cornerstone of commercial brewing in Asia in an area where the cultivation of malt and hops seemed implausible.

GROWTH OF GLOBAL MIDDLE CLASS



Based on current projections, the Asia Pacific region will account an estimated 90% of the global middle-class by 2050

SPEED READ

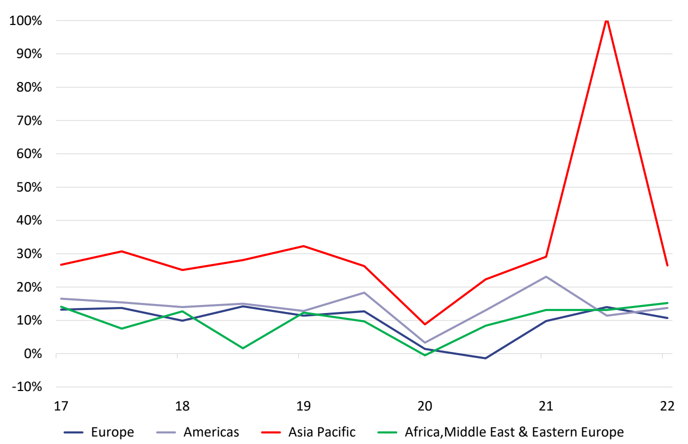
- **The Asia Pacific region will account for an estimated 90% of the global middle-class population by 2050,**
- **Asia Pacific accounted for only 4% of operating profits in 2003. That has now surged to over 30%.**
- **With a Net Debt / EBITDA ratio of 2.11x and a dividend that has outpaced inflation, accounting for only 40% of free cash flow, Heineken exhibits a steadfast commitment to delivering competitive returns to shareholders over a sustained period**

The 1931 prospectus offers valuable insights into some of the challenges encountered while establishing a brewery in Singapore. It acknowledged previous attempts, but none had ever matched this ambitious venture. In an investigation conducted in 1932, a writer shed light on the technological hurdles faced, such as the inability to cultivate malt and hops in the tropical climate. Hops was transported in tin-lined wooden cases, enduring a grueling 14-day journey from Europe, only to be stored in cold storage upon arrival. Notably, the writer underscored the cutting-edge nature of the beer filtration plant, which boasted expensive equipment that was at the forefront of brewing technology. This endeavor exemplified Heineken's appetite for risk during this period, coinciding with the end of prohibition in the USA, when rumors of its repeal were just starting to circulate. Undeterred by uncertainty, Heineken ramped up production, seizing the opportunity and emerging as the foremost imported beer in the USA. Remarkably, amidst seemingly unfavorable conditions, the potential within Singapore was also realized. Today, studies further validate that initial investment case, revealing the significant growth of the middle class in Asia-Pacific and providing additional justification for their forward-thinking decision.

Based on certain studies, it is projected that the Asia Pacific region will account for an estimated 90% of the global middle-class population by 2050, signifying the region's tremendous growth potential. A notable example is the Vietnamese government's recent implementation of a comprehensive master plan and long-term vision, targeting the achievement of an upper middle-income economy by 2030 and a fully developed high-income society by 2050. This ambitious vision is well supported by a thriving digital and service-oriented economy. Additionally, the Power Development Plan, which emphasizes renewable energy sources like solar power and wind, showcases a transformative shift in the energy sector not unlike our own hope filled version. The current GDP projections indicate a solid growth rate of 6%, with the government aiming to sustain a growth rate surpassing 7%. These figures serve to reinforce various region-specific forecasts, underlining promising prospects for the future.

The profile of the labor force in Vietnam is equally remarkable. A striking 85.3% of the workforce possesses advanced education, while the median age is just 31.6 years. Female participation in the workforce is also substantial, at 79%, challenging the notion of low-cost labor as the sole attractive characteristic. Recently, Tiger Brewery launched a campaign titled "The Brewery Uncaged," providing a glimpse into the process of crafting a globally successful beer in the 21st century. The campaign also sheds light on significant demographic traits within the Asia Pacific region. The brewery operates with an in-house ergonomically designed facility, a throwback to that 1931 facility, utilizing hydroponic production methods for malt and hops. The

OPERATING MARGINS BY REGION



Heineken has always managed to earn better margins in Asia than elsewhere in the world. This is a strong competitive advantage given the projected population growth.

campaign advertisement showcases a youthful, diverse, and highly skilled workforce, encompassing various genders and races. This advert captures the growing international reach of Tiger beer and more so the growing significance of the Asia Pacific market for Heineken.

The objective in this region is to capture a larger portion of the anticipated growth while ensuring attractive profit margins by diversifying the portfolio strategically. The investments made over 90 years ago are now yielding fruit. In 2003, Asia Pacific accounted for only 4% of operating profits, but it has now surged to over 30% on just 17% of the company's total volumes. Heineken holds a premium position within this region, with margins exceeding 20%, thereby maintaining a competitive edge across key brands such as Tiger, Heineken, Kingfisher, Bia Viet, and Bintang.

"The company has transitioned to a more asset-light operation, generating over 70% sales through its digital platform with Asia Pacific as the second largest contributor".

Furthermore, the company has transitioned to a more asset-light operation, generating over 70% sales through its digital platform with Asia Pacific as the second largest contributor. This serves as a foundation for cost savings and efficiency gains. This ongoing trend has proven crucial in stabilizing revenues and profits, particularly amidst the slowdown experienced in developed markets with over 40 breweries entering insolvency in the UK. Tiger, as the leading beer brand in Asia, with other brands holding leading positions in China and India, is evidence of them achieving their stated goals in this region.

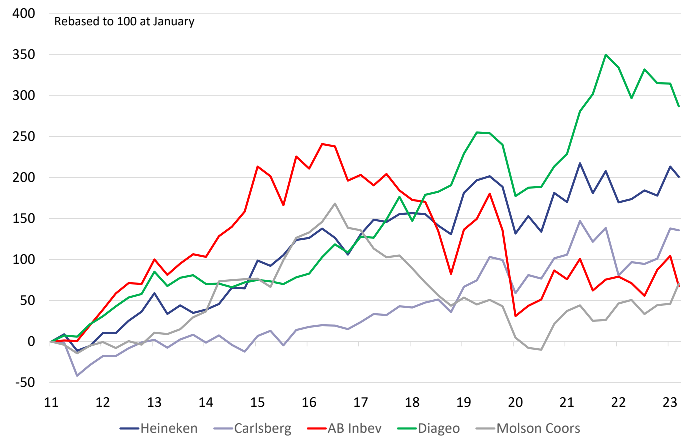
Embarking on ambitious goals and expanding into new markets inherently entails a multitude of challenges. Within a fiercely competitive industry, the ability to capitalize on opportunities relies heavily on effective advertising campaigns and product differentiation, with the aim of achieving consistent progress. Engaging both existing and potential customers requires creative negotiation to navigate potential obstacles successfully. Moreover, the 1931 prospectus underscores the crucial role of extensive knowledge and experience in adopting a cautious approach to avoid marketing pitfalls. Unfortunately, even industry giants like AB-InBev and Starbucks have recently encountered setbacks within the sector. Heineken, too, has experienced its fair share of missteps, highlighting the importance of exercising caution when adapting to evolving societal norms. For instance, one of my favorite Heineken adverts cleverly juxtaposed a walk-in fridge with a walk-in closet, relying on gender stereotypes that may not be well-received in the current climate of scrutiny. Just look at the damage that AB-Inbev has caused to its Budweiser Light brand in the US through careless use of transgender influencers on social media. This additional layer of complexity increases the risks associated with venturing into new markets.

NET DEBT/EBITDA

Heineken has sufficient leverage relative to its biggest competitor to participate in meaningful acquisitions.

Nonetheless, as Heineken expands its presence in new markets with innovative products such as Heineken Silver and strengthening its existing customer base, it holds an advantage over industry peers with its global footprint, resilient balance sheet, and robust cash flows. In contrast, since its acquisition of SABMiller, AB-Inbev has faced the need to moderate market activity and has been constrained to rely on organic growth strategies and cost cutting to generate profits. AB-Inbev is still suffering from indigestion from that acquisition. Debt levels are too high, which has impacted both their ability to grow and their ability to reward shareholders. AB-Inbev's dividend is still 60% lower than what it was prior to the acquisition – 7 years later. In contrast, the strength of Heineken's balance sheet provides a solid foundation for potential strategic acquisitions, as demonstrated by its recent successful purchase of Distell. With an impressive Net Debt / EBITDA ratio of 2.1x and a dividend that outpaces inflation while accounting for only 40% of free cash flow, Heineken exhibits better financial stability. In a mature industry marked by ongoing consolidation and limited options on the JSE, clients can access Heineken's potential through the Harvard House Worldwide Fund. It underscores one of our key reasons for investing offshore – not to run away from SA but rather to deepen the pool of investment opportunities. Furthermore, as the possibility of a recession looms, we believe that large, global consumer staples with strong balance sheets and strong cash flows will outperform as investors seek safe havens in tougher times. Heineken ticks all these boxes and remains a firm holding across our global portfolios.

CUMULATIVE TOTAL RETURN



Heineken has performed steadily for many years, both in absolute terms and relative to its peer group. It continues to offer tremendous value for shareholders.

Heinekin's beer continues to grow it's market share in Asia

Our next Insight seminar will take place in June and provide an update on what has driven markets over the first six months of the year, and what might lie ahead for the balance of the year. We are very excited to be expanding our seminar program to Cape Town.

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Topic:	**Mid Year Market Update**
Natal Midlands	
Date:	Thursday, 22nd June 2023
Venue:	Oasis Conference Centre, 72 Main Road, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm
Johannesburg	
Date:	Tuesday, 13th of June
Venue:	Rosebank Union Church, Cnr William Nichol and St Andrews Road, Hurlingham
Time:	7am for 7.30am
Cape Town	
Date:	Wednesday, 14th of June
Venue:	ABRU Motor Studio, Lourensford Wine Estate, Somerset West
Time:	5.30pm for 6pm

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For more information on the range of products and services offered by Harvard House Investment Management and its associated companies (including Harvard House, Chartered Accountants), or for any financial advice, please contact the Company at:

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