Hartalega

Hartalega Holdings Berhad

MSWG Q&A

2023

MSWG Q&A – Operational & Financial Matters

Growing Global
Innovation & Quality

Question:

Global oversupply and excess inventory levels resulted in slower purchase demand that impacted average selling prices (ASPs) for rubber gloves. Having spiked at the onset of the pandemic and then rapidly declining in 2021, ASPs continued to moderate in 2022 to subsequently reach below pre-pandemic levels towards the second half of the year (page 15 of IAR 2023).

What are your current ASPs and how do they compare with Chinese manufacturers? What differentiates Hartalega's pricing strategy from competitors, particularly those offering lower prices?

Response:

In the most recent quarter, our ASPs ranged around USD 20 per thousand pieces. The Chinese players are pricing their products relatively lower to maintain ASP gap with Malaysian players.

Being one of the forefront glove manufacturers in the industry for over 35 years, Hartalega is well-positioned and differentiated via our reliability and consistency in product quality and delivery.

MSWG Q&A – Operational & Financial Matters

Question:

ASPs are expected to be lower in the next few quarters, as some key input costs such as natural gas have declined and glove players typically pass on cost savings to customers. Considering the existing market dynamics, **what is Hartalega's outlook for ASPs over the next few quarters? Are there any anticipated changes in market conditions or internal strategies that might influence these projections?**

Response:

Given the persisting headwinds facing the sector, we do not expect any positive impetus for the ASP outlook and it would likely to remain soft within the short to medium term period, or at least for the remaining of FY 2024.

MSWG Q&A – Operational & Financial Matters

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Question:

Please outline the distinct advantages that Malaysian glove manufacturers hold in comparison to their Chinese counterparts.

Response:

The Malaysian manufacturers have been operating in the glove market for over 30 years and remained as key global players today. Hence, being more well-established and matured with the glove manufacturing know-how, our key advantage would be in terms of higher level of production consistency, reliability and quality relative to the Chinese players.

Having said that, our Chinese peers currently have key advantage in the form of lower energy cost due to the cheaper cost of coal as compared to domestic players who are using the more expensive but cleaner natural gas.

MSWG Q&A – Operational & Financial Matters

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Question:

Once market demand and supply reach an equilibrium, post-pandemic growth in global demand is expected. By taking proactive measures today, Hartalega will remain at the forefront of the industry as a trusted global healthcare products provider (page 19 of IAR 2023).

Considering the present market dynamics and excluding any exceptional events like a pandemic, **when does Hartalega anticipate the glove market to achieve a state of equilibrium? What growth rate does Hartalega expect for the post-pandemic global demand for gloves?**

Response:

The post-pandemic market outlook remains volatile amidst the ongoing market adjustment today. We would expect the market to reach new equilibrium in terms of supply-demand dynamics by year 2024/25. This is premised upon rational capacity expansion by key global players.

Thereafter, we believe the long-term global demand would continue to grow at an average rate of 6%-8% per annum basing on the pre-pandemic average growth in consumption over the past 20 years.

MSWG Q&A – Operational & Financial Matters

Question:

Hartalega has made further progress in automation and digitalization, which also form the foundation for future Industry 4.0 initiatives. A majority of the NGC facility's plants have now fully digitalized production lines. Simultaneously, automation is being introduced to the packing system, a labour-intensive process (page 16 of IAR 2023).

How much reduction in labour has Hartalega observed as a result of these initiatives? Please provide insights into the methods used to measure and quantify this decrease in manual labour requirements.

Response:

To-date, we have fully implemented the automated packing system in the production lines for two of our plants in NGC facility. From our initial observation we are able to reduce direct labour cost by approximately 7% in these plants.

MSWG Q&A – Operational & Financial Matters

Growing Global
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Question:

What is the projected timeframe for achieving Hartalega's automation goals in stages, and are there specific targets set for each phase? What is the allocated capital expenditure for these staged automation efforts?

Response:

Currently, we are working towards integrating key manufacturing processes into the Digital Manufacturing System (DMS), which will be scaled across two financial years, namely FY 2024 and FY 2025. The key benefits from DMS implementation are productivity and efficiency enhancement, energy savings and manpower optimisation across stages of production.

For the coming years, we are looking to invest approximately RM70 million for technology-related projects which include automation as well as other innovation-related projects.

MSWG Q&A – Operational & Financial Matters

Question:

In 2023, Hartalega continued to expand its reach to emerging market regions such as Asia Pacific, Latin America, and Africa (page 15 of IAR 2023).

Please provide insights into the extent of Hartalega's market penetration in these regions and the progress made over the past year. Which specific countries has Hartalega successfully increased its market reach and established a stronger foothold over the course of the year?

Response:

Given the intense market competition in key developed regions, such as the North American and European markets, we have begun to increase our market reach to other developing markets, notably within the emerging Asia region. We have recorded a year-on-year increase in our revenue composition from emerging Asia region to 18% in FY 2023 from 14% recorded in the previous year.

Moving forward, we will continue to drive sales in the region given the expected long-term consumption growth amid increasing hygiene awareness and current low gloves consumption base in the region.

MSWG Q&A – Operational & Financial Matters

Question:

How does Hartalega's presence and sales in these markets stack up against competitors? What strategies have contributed to your competitive position?

Response:

We are cognisant that the emerging Asia region has different glove product requirements as compared to the developed markets where we predominantly served. Taking this into consideration, we have customised our production to produce the right products to cater for this price-sensitive market.

By understanding this region and bringing the right products to meet the end-user needs, we believe that we would be able to gradually increase our competitive position in this region moving forward.

MSWG Q&A – Sustainability Matters

Growing Global
Innovation & Quality

Question:

While the year saw the decommissioning of the Bestari Jaya facility, Hartalega continued to strengthen its talent pipeline strategically in line with its long-term growth objectives, seeking out individuals of diverse backgrounds. This saw approximately 1,500 job opportunities in FY2023 (page 64 of IAR 2023).

Please provide insights into the effects of the Bestari Jaya facility decommissioning on its associated employees. How many job positions were affected or lost as a result, and what measures were taken to support affected employees? Were there any retraining or reskilling initiatives offered to the affected employees, to help them transition into new roles within or outside the company?

Response:

The decommissioning of the Bestari Jaya facility is a difficult yet necessary decision to ensure that Hartalega will be able to weather the tough market landscape. We have put in place multiple measures to support the affected employees which include: -

i. Opportunity for redeployment to our NGC facility for relevant roles
ii. Competitive severance packages
iii. Outplacement support for affected employees during the transition period
iv. HR Helpdesk to address any employee concerns and queries
v. HR assistance and counselling for affected employees

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MSWG Q&A – Sustainability Matters

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Response (cont.):

From the total of 2,783 Bestari Jaya employees, approximately 57% of employees will be redeployed to NGC facility in Sepang. We will be offering extensive redeployment support such as hostel accommodation, one-off relocation allowance, and transport allowance, among others. We have also put together a structured onboarding programme, as well as essential training for their new roles, if required, to ease their redeployment experience.

The remaining 43% of employees will undergo retrenchment (with competitive severance packages above the applicable legal requirement), or be deemed voluntarily resigned for those who opt not to be redeployed with available job placement offered.

To support the outgoing Hartanians in exploring their job options, we have also organised a series of job outplacement programmes, which include a Resume Writing Workshop, SOSCO Workshop, as well as a two-day career fair in collaboration with 15 partnering employers.

In addition, we will incentivise eligible Bestari Jaya Hartanians to continue upholding a high level of performance by offering a Smooth Transition Bonus, amounting to one month's salary, upon successful completion of smooth product line transfers and decommissioning process.

MSWG Q&A – Sustainability Matters

Growing Global
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Question:

How did Hartalega engage with the local community during the decommissioning process of the Bestari Jaya facility? Were there any community outreach initiatives or collaborations to address potential impacts?

Response:

Following the official announcement, we have been engaging with local authorities as well as community representatives to address their queries. We remain committed to continuous and open engagement with key stakeholders, including the local community, to ensure that the decommissioning process is conducted smoothly.