INTUITION
31 JANUARY 2024

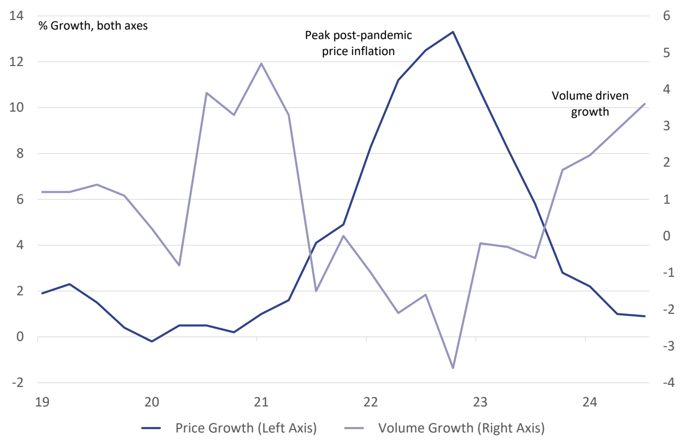
Unilever: Making Life Better

Unilever was formed by a merger of the operations of Dutch 'Margarine Unie' and British soap maker, 'Lever Brothers' in 1929. It is one of the world's largest fast-moving consumer goods (FMCG) companies, selling some of the best-known food, cleaning and personal care brands including Dove, Knorr, Marmite, Magnum, Cornetto, Ben & Jerry's, Lipton, Hellmann's, Lifebuoy, Lux, Axe (Lynx), Persil (Omo) & Sunlight. Competing against the likes of Nestlé and Procter & Gamble, its key differentiator is that 6 out of its top 10 markets are emerging markets, led by fast growing India and Brazil. This article will examine the current opportunities under the new leadership of Hein Schumaker as he implements a 5-year strategic plan to increase margins and innovation, cut costs, open niche markets and return to volume-driven sales growth now that it can no longer raise prices at will.

Nick Rogers

Multi-national consumer giants, including Unilever, were forced to rapidly raise prices to cope with above-inflation cost increases as the pandemic lockdowns caused supply chain bottlenecks. Furthermore, core inputs like grain and energy leapt overnight after Russia's invasion of Ukraine. Unilever's underlying price increases peaked in late 2022 at 13.3% driven by home care (+17%) and ice cream (+14%). In 2025, European food producers are expected to face tough comparatives as pricing normalises. Consequently, management's focus has shifted to driving revenue through increased volumes as there is a point at which the embattled consumer will trade down to cheaper brands and the big players now have to fight hard to regain lost market share to low-cost players like Walmart whose private brand penetration is in the 20% - 25% range of total sales. To build

UNILEVER: PRICING VS VOLUMES



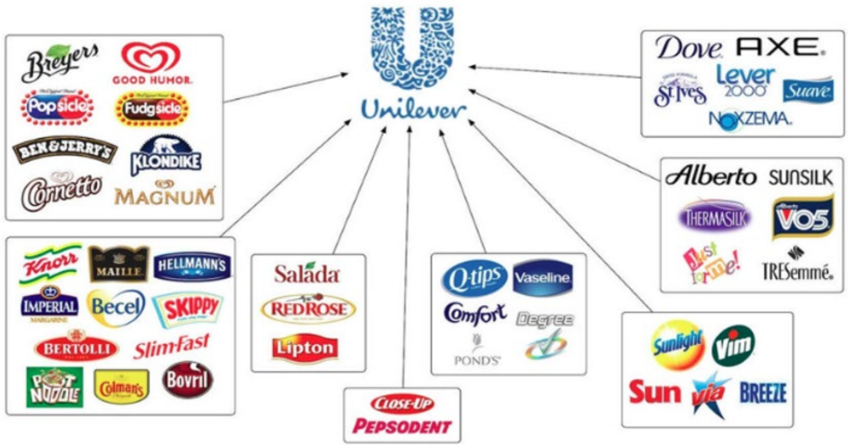
As supply chains choked during the Covid lockdowns, FMCG companies had to raise prices, but embattled consumers could only pay so much before trading down. Consequently, volumes declined. Volumes have now risen for four consecutive quarters, vital to drive increased sales in a competitive market.

SPEED READ

- **Unilever, like many other FMCG companies, suffered through the period of price inflation after the pandemic, which caused volumes and margins to contract.**
- **Under the leadership of a refreshed board and new CEO, the company has embarked on a strategic review to focus on its core products. Competitors are doing the same.**
- **The share is back at a similar level to January 2020 but is well off the 2022 lows thanks to the implementation of the new CEO's turnaround strategy, focused on driving volumes to regain market share lost to consumers who traded down to private label and more affordable brands.**
- **The volume strategy is underpinned by brand power, innovation, exiting the ice cream business and connecting with younger consumers.**
- **Strong cash conversion is supporting rising cash returns to shareholders through dividends and buybacks. That makes for an appealing investment case.**

and sustain sales momentum, management has highlighted the following strategic initiatives to achieve success over the next five years.

UNILEVER'S PRODUCT PORTFOLIO



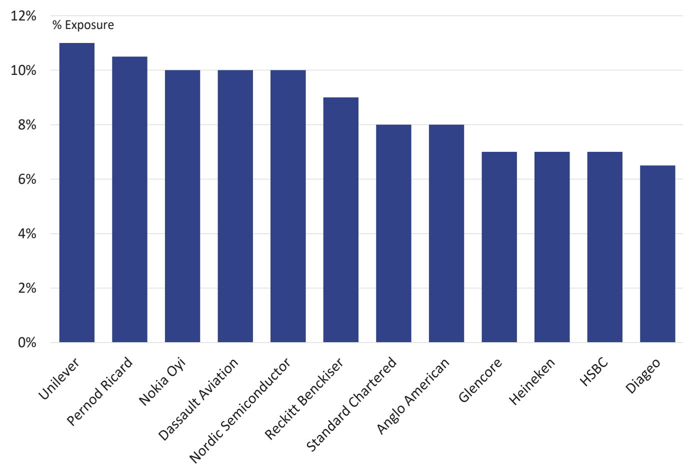
Unilever's brands need no introduction and dominate global households and our everyday lives.

Brand Power is synonymous with Unilever. Approximately 3.5 billion people use a Unilever product every day. Its strong brands occupy the number 1 or 2 position in 80% of the country/ category combinations in which it operates. However, having too many brands can lead to saturation or lack of focus and sales suffer as a result. It makes sense then that management have decided to focus heavily on its top 30 Power Brands which account for 75% of revenues, to drive sales. Dove is Unilever's biggest Power Brand accounting for 10% of turnover. Unilever will now go one step further and re-focus its resources on its top 24 geographies which account for 85% of turnover, reducing logistical costs to far-flung under-performing areas. There will also be a series of asset sales for under-performing businesses/ products in the quest to right-size and streamline the business.

Unilever's Ice Cream division has a 20% share of the €83 billion ice cream market. As the temperature soared to 40 °C in December, many of us would have headed to the frozen section of the local super-market and grabbed a Cornetto or Magnum ice-cream. Interestingly, 9 out of 10 Gen Z consumers eat at least one snack a day, with one-third preferring snacks to meals when working from home. While potato chips (crisps) are the top choice for 52% of American snackers, ice cream is the go-to for 21% and trending higher. Unilever's ice cream supply chain has 35 factories and an estimated 3 million freezers across 60 countries. The company is harnessing the power of Artificial Intelligence (AI) by analysing data collected by 100,000 AI-enabled freezers. The result is a 30% increase in retail orders and sales. However, the energy costs to run freezers and the difficulty to tap rural areas across its vast EM markets mean that the gross margins remain low. This does not align well with management's strategy to target 50% gross margins by 2030. Consequently, an initial public offering (IPO) of the business is on track for the fourth quarter of 2025 which is expected to realise a higher value and by default, raise the average gross margins as this division is removed. The CEO has emphasized that it remains a strong business but only works well within densely populated cities and thus lacks real synergies with Unilever. It would thrive more as a focused, stand-alone business.

India is Unilever's single biggest near-term opportunity. Its population of 1.45 billion surpassed China (1.42 billion) in 2022, according to Worldometer. More importantly, consumer spending which drives FMCG sales, makes up c60% of GDP in India versus c40% for China which relies more on manufacturing & exports. Granted, China's GDP is 4.7 times larger than India's but it is the rate of growth that will count over the coming decade. Urbanisation plays a huge role in driving GDP growth. Given that only 37% of Indians live in urban areas versus 66% in China, this is a significant growth driver. As rural folk migrate to the find jobs in the big cities, salaries rise and consequently disposable incomes rise as does the appetite for Western brands. "We have an incredible business in India. It is €6.5 billion of revenue. We have 55% share in hair care. Every time we grow 7%, we grow the size of our main European competitor in hair care, in India, and we are growing 11%. So, basically, I'm putting 1.5x the size of one of our major competitors in India, in one year." (CEO) This illustrates the sheer scale and, combined with Unilever's global logistics experience, it can ramp up volumes quickly to match

INDIAN EXPOSURE: % OF REVENUE



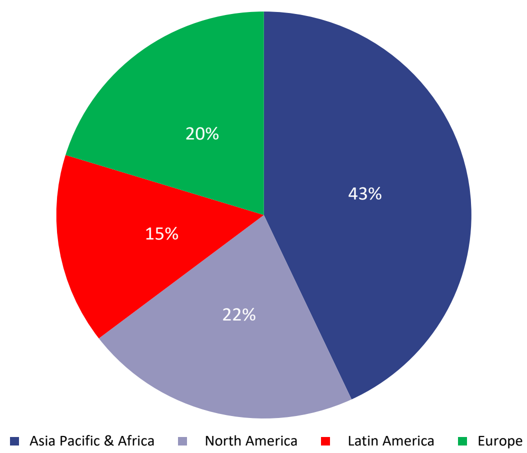
The vast Indian population remains under-serviced and offers huge potential to those companies who can harness their wallet-share. Unilever has the largest exposure to India across top European companies.

demand. Unilever's astute management team were quick to take first mover advantage and are number one in 85% of the categories in which it participates. India will continue to be a strong source of growth for FMCG companies and the CEO has emphasised that he will do whatever it takes to both defend and strengthen their growing Indian business.

Innovation is the lifeblood of FMCG companies. The biggest change in Unilever's innovation mentality is to 'make markets' where it can drive disproportionate market share and outperform peers. Unilever has a pipeline of 12 innovations and believes that each should become €100 million businesses in 2-3 years' time. Innovation can also be derived by improving on current products. For instance, Unilever is a world expert in tough stain removal. Its Appraisal Lab contains 80 different washing machines which replicate the ones used by its global customers as well as the different water hardness conditions, from very soft (like Australia) to moderately hard (like North America). Lab technicians now analyse everyday stains like tea, coffee, wine and cooking oils, using high-tech scanners to accurately measure the colour of the stain before and after washing to drive improvements. Enter Persil Wonderwash, Unilever's first-ever detergent designed specifically for short, cold cycles. Wonderwash has given Unilever first-mover advantage in an unmet consumer need for effective stain and odour removal, within 15 minutes. This design caters to modern laundry habits where people increasingly opt for quick wash cycles to save time and electricity. This laundry niche has so far been poorly provided by competitors and could potentially become a €2 billion global market opportunity, according to Unilever.

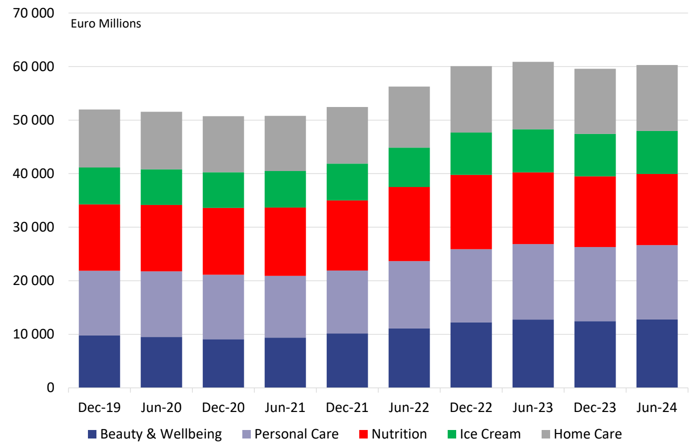
"Gaming is the new social playground," according to Willem Dinger, Unilever's Global Head of Sport & Entertainment Partnerships. In the US, Gen Z consumers spend over 12 hours a week gaming and 13.9 hours on social media. Unilever research revealed that 70% of gamers are actively interested in personal care products, and 45% buy premium deodorants and body sprays, compared with 35% of non-gamers. Who would have thought? The 2023 Global Gamer Study revealed that 45% of gamers are women - who place a higher emphasis on personal care than men, let's be honest! With gaming now reaching a third of the global population, it is estimated that there will be 3.1 billion gamers worldwide by 2027. Unilever is partnering with big-name platforms like EAFC, Fortnite, and Roblox to advertise directly on the Gen Z's screens, connecting personal care brands to the audience that is actually spending their time gaming. This illustrates the ingenuity of Unilever's research team to crack the code to new niche markets.

REVENUE BY GEOGRAPHY



The US is its largest market at 20% of revenue, followed by India (10%) but Emerging Markets dominate and are the key differentiator relative to peers.

REVENUE BY DIVISION



Personal Care, led by Dove, is the largest division whilst Beauty & Wellbeing experienced the strongest sales and volume growth in the most recent results.

The new CEO has been instrumental in driving much-needed culture change. The board is now a healthy mix of valuable Unilever experience and fresh perspectives whilst the remuneration is now more aligned with volume targets to ultimately align with shareholders. Furthermore, rationalization continues apace as one in three European office jobs will be cut – unprecedented for a company this size. The combination of volume growth and cost savings has underpinned free cash flow, which in turn allows Unilever to pay out 60% of profits as a dividend, on top of this year's €1.5 billion buyback. After the IPO of the ice cream business, net debt will fall further, providing even more support for cash returns in the future. The share price is back at pre-Covid levels and with a dividend yield of 3.2% and a forward PE ratio of 17.7x. That is appealing for a company that still has much to deliver from its strategic review.

Having examined the case for SA in our last seminar, our next presentation will focus on the prognosis for offshore investments.

Topic:	Re-examining the case for offshore
Natal Midlands	
Date:	13 March 2025
Venue:	Christ Church Howick, 23 Mare Street, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

Johannesburg	
Date:	11 March 2025
Venue:	Rosebank Union Church, Cnr Winne Mandela Drive and St Andrews Road, Hurlingham
Time:	7am for 7.30am

Cape Town	
Date:	n/a
Venue:	SSISA Conference Centre, Boundary Road, Newlands, Classroom 1, 3rd Floor
Time:	7.30am
Venue:	ABRU Motor Studio, Lourensford Wine Estate, Somerset West
Time:	5.30pm for 6pm

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