CAS UNILEVER[1]

0. Introduction

Unilever is a multinational corporation acting as a dual-listed company divided in Unilever PLC, which is based in London, and Unilever N.V., which is based in Rotterdam. Nowadays, Unilever counts with more than 400 brands and it is present all around the world aiming to achieve their main goal – “to make sustainable living commonplace”.

1. History

Firstly, in 1872, Jurgens and Van den Bergh built some margarine factories in Holland. They expanded themselves to Germany in 1888. During the first decade of the 20th century they signed a deal to share profits, starting a few years later to buy small companies, controlling each one seven factories all over Germany. They ended up creating Margarine Uni together.

Secondly, around 1884, Lever & Co-founder created a new product that changed the way in which hygiene was seen. By 1887 the company was producing 450 soap tones a week. Seven years later the company went public, expanding afterwards to Europe, America and the British colonies. In 1906 the company had a prosperous export business as well as three factories in Europe and one in Canada, Australia and USA. In the 1910’s decade, Lever Brothers started acquiring companies all over the glove such as WB Maclver Ltd in Africa.

As a result, the 2nd of September of 1929 Unilever was finally founded when Margarine Unie and Lever brothers signed a deal to create this new company. After the WWII, Unilever local businesses acted independently focusing on local markets. The

[1] *Case written by Esperança Lladó, Pablo Lara, Silvia Civera, Javier Gracia and Pablo Vitoria under the supervision and recommendation of the Professor Oriol Amat. Universitat Pompeu Fabra, 2018.*

40’s decade stands out for the big global expansion in the food industry, however, Unilever was banned from East Europe and China due to the social-political context.
In the 70’s, Unilever entered the meat industry buying Zwanenberg’s en Oss, later known as UVG. Continuing, that way, with its big diversification plan that characterizes this company. In 1978, with the objective of gaining presence in the US, it bought National Starch, an adhesives and chemicals leader. At the beginning of the 80’s, Unilever was the 26th biggest company all over the world. As a highlight of the decade, we can find the acquisition of Calvin Klein or Magnum.

In 2008, coinciding with the financial crisis, the firm sold a few companies from North America or Ivory Coast. One year later, Paul Polman took over the company and he continued with the plan of producing social and environmentally responsible. Nowadays, sustainable production is one of the focus of the company, starting a plan that helps more than a thousand million people to improve their wellbeing as well as reducing by half the environmental impact due to Unilever products’ use.

Shown below (see Figure 1) there is a summary of the most important years for the company.

1872	Jurgens and Van den Bergh build some margarine factories in Holland
1884	Lever & Co foundation
1929	Margarine Unie and Lever brothers sign a deal to create Unilever
1940s	Unilever was banned from East Europe and China due to the social-political context.
1970s	Entrance in the meat industry and US expansion
1970-2008	The company continues diversification, buying some leader companies like Calvin Klein or Magnum
2008	Financial crisis starts, and the firm sells a few companies in North America or Ivory Coast
2008 -	Paul Polman takes over the company and focuses on sustainable

nowadays	production

Figure 1. *Important dates for the company (Source: Unilever. 10/2018)*

2. Industry analysis and competitors

Unilever is a diversified goods company which is included in the Fast-Moving Consumer Goods (hereafter FMCG) industry. FMCG are products that are sold very quick and at a relatively low cost, used on the daily basis and for private consumption, such as personal care products, food and beverages, household products or over-the-counter drugs. FMCG industry, also called Consumer Packaged Goods (CPG) industry, deals mainly with production, distribution, sales, operations, financing, purchases, supply chain, marketing and general management.

This industry is present in both developed and developing countries and most of the population consume its products regularly, which are small-scale consumer purchases.
The profit margin on single FMCG sales is low due to the usual low cost of these products, but, because of their short shelf lives and the high volume of sales, this industry is one of the most important in the world.

The marketplace for FMCG is very big and includes some of the largest multinationals such as Nestlé AG, Procter & Gamble, PepsiCo, Unilever, AB-InBev, JBS, Tyson Foods, Coca-Cola Company, L’Oréal, Philip Morris International, Danone, etc.

The FMCG industry is one of the most competitive in the market and companies are constantly innovating in order to gain comparative advantage and place themselves in an outstanding position within the market, being the first choice for consumers. As shown below (see figure 2), the leading companies of the FMCG industry are Nestlé, Procter & Gamble (P&G), Unilever, PepsiCo and Coca-Cola Company. All of them are present at an international level and their strategy goes through consumer needs research and loyalty development, paying special attention on country-specific requirements regarding packaging and labeling.

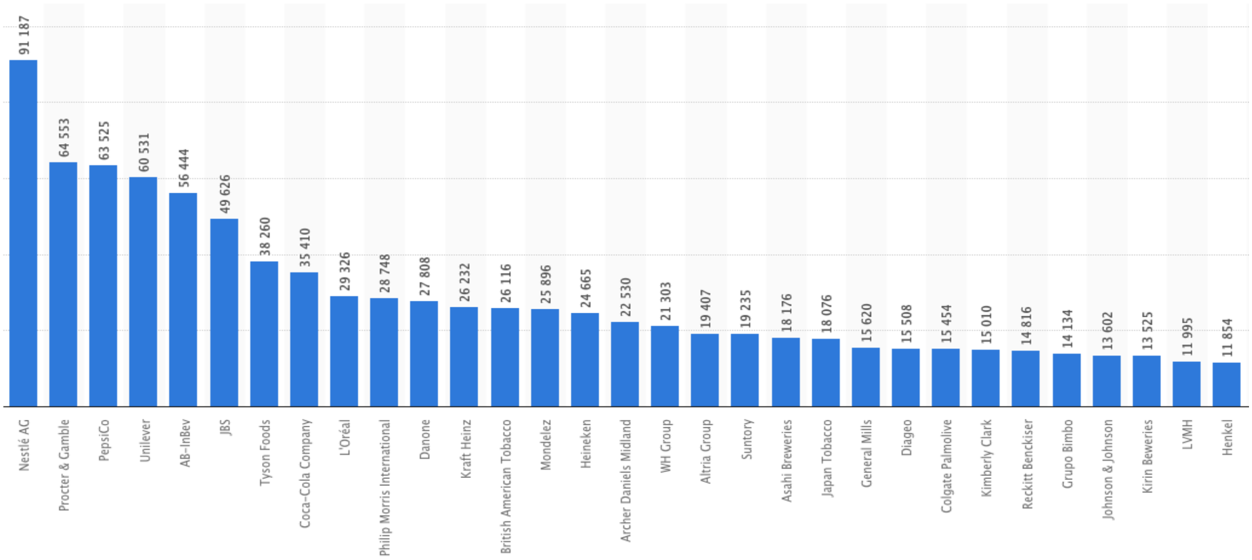

Figure 2. *Competitors in the FMCG in 2017, based on net sales (in million U.S. dollars). (Source: Statista 10/2018)*

In the previous ranking we can see the top FMCG companies in 2017, based on net sales, in which Unilever ranked the fourth worldwide largest company in FMCG industry, with 60.53 billion U.S. dollars of net sales.

2.1. Products

Unilever has a really diversified portfolio of products with more than 400 brands. These products can be mainly found under three main industries. These industries are Personal Care, Foods and Refreshment (beverages and ice cream) and Home Care:

- Personal Care is the most important industry for Unilever. In 2017, according to Unilever's Annual report, this industry generated turnover of €20.7 billion, which accounted for 39% of Unilever's turnover and 46% of their operating profit. We can clearly state that Personal care is the most important industry in which the company operates. Under this category there are five highlighted brands that are Axe, Dove, Lux, Rexona and Sunsilk, as well as four highlighted markets being the US, India, Brazil and Indonesia.
- Foods and Refreshments were separated categories until January 1st, when they were combined as one. Foods generated 26% of the operating profit in 2017, while Refreshments did just 15% of it. Under these new combined categories there are brands such as Knorr, Hellman's, Magnum and Lipton.
- Home care represented 13% of the operating profit of the company in 2017. The most important two brands filed under this category are Dirt is Good and Surf.

2.2 Swot

2.2.1. Strength

- USLP (Unilever Sustainable Living Plan). Unilever is aware of the increasing sustainability demanded by consumers. The company has three main goals: improving health and well being, reducing environmental impact and enhancing livelihoods (equality in the workplace). For these targets to be met Unilever is integrating into their day-to-day business initiatives such as waste reduction, use of renewable energy, etc. In 2016, eighteen of their top brands like Ben & Jerry's or Dove followed the USLP. These brands grew 50% faster than the other brands. They also produced more than a 60% of the total growth.
- Multiplicity of channels. According to Unilever's annual report of 2017: "Unilever counts with ten different channels: hyper and supermarkets, e-commerce, out of home, drug stores, small stores, discounters, Food Solutions, Unilever International, prestige channel and global retail". Consumers globally are really fragmented relating the channels in which they acquire the products, therefore, the company counts with a strong position in this aspect reaching to 2.5 billion consumers every day.
- Value creation model: Knowing the fast-changing preferences of the consumers, Unilever follows periodic marketing and R&D tasks working with more than 25 People data Centers. Although the company is spending €900 million annually, these tasks provide a strong value creation model helped by advertisement and global presence.
- Strong growth of the shareholder's returns. In the last three years these returns have grown a 49%.
- Important diversification not only in products but also in markets. Its product portfolio has significantly increased through years of mergers and acquisitions, having powerful brands in the consumer market. Presence in more than 190 countries with great importance of emerging markets (making 58% of the turnover), and a talent pool of local management – over 70% of our leaders are local.

2.2.2. Weaknesses:

- High dependence on suppliers. Most Unilever products depend on the materials purchased to their suppliers. The cost of the company's products is much affected by the materials and commodities used to produce them. High dependence on suppliers is never good due to the possible loss of negotiation power. In addition, possible problems that might cut the supply chain will create a real problem to the production cycle. Even though in the industries that the company performs there are many suppliers, the specific knowledge of the actual suppliers makes it costly for the company to change them.
- Only presence in the consumer market. Even though Unilever is really diversified in the consumer market it does not count with products outside these industries having a lot of dependence in consumers.
- Products easy to imitate. There are many companies which create the same products as Unilever, such as P&G, the closer competitor of the company.

2.2.3. Opportunities:

- Opportunities to innovate. As society and trends change fast, Unilever has the opportunity to make the products that the society is looking for as the company follows carefully consumer's behaviors and R&D tasks. Their goal is to innovate while winning the trust of consumers and following their environment sustainable plan. An example of how the company uses these opportunities is the range of vegan and vegetarian products that Unilever has included in the recent years.
- Increase in the global market for personal care products. Substantial growth and expectations to keep growing in the men's grooming market. This fact states a huge growth of the main industry for Unilever.
- Emerging markets. These markets already constitute a 58% of Unilever's turnover. As the growth of those countries is now exponential, the increase in disposable income of their inhabitants will mean higher sales in those countries.
- Business diversification outside the consumer market. Entering other markets and industries (as it can be B2B products) will decrease more the risks that Unilever faces.

2.2.4. Threats:

- Even though Unilever counts with the USLP, consumers now demand more transparency and ethicality than ever. The company must be very careful in assuring and complying with the Code of Business Principles.
- Economic and political instability. As the company operates all around the world it is exposed to numerous different economic and political systems, many of them unstable. Any adverse economic conditions or political crisis will affect the sales of their product in those countries. As mentioned before, the importance of the emerging market is a great opportunity for Unilever, however it also means a high political and economic instability. An example of this threat is the market in Brazil, that since consumers are suffering economic problems they are spending less.

  Moreover, Brexit is nowadays one of the main political challenges that the company has to face. Recently, they announced their intention to move completely their headquarters based in London to Rotterdam, thus ending its dual Anglo-Dutch structure. Nonetheless, on the 5th November, they have announced that, for now, this plan has been cancelled.
- Brand importance. Their consumers are tied to their brands so a failure of delivering quality will mean a loss of trust.

2.3. Sales evolution of the company

Unilever is one of the top worldwide FMCG companies; its performance within the market have been improving over the years (see Figure 3) and the company has a promising future within the industry. Despite its increasing trend, 2014 was not the best year for the consumer goods giant; underlying sales grew up 2.9% but turnover declined 2.7% to €48.4 billion (€49.7 billion in 2013), including a negative currency impact of 4.6%.

In 2015, the turnover of Unilever grew by 10%, positioning at €53.3 billion. Emerging markets represented 58% of total turnover, which was 57% in 2014, with growth in sales of 7.1% (5.7% in 2014).

In 2016, the company had a generating turnover of €52.7 billion, in a strongly competitive market place. In 2017 there was a continuation of this trend and underlying sales grew 3.5%, supported by high levels of brand and marketing investment. That same year, two-thirds of the savings generated, which was more than €2 billion were re-invested in the company.

Unilever had a significant increase in sales in the fourth quarter of 2018 due to a strong performance in emerging markets. Unilever was boosted by a 6.3% increase in emerging markets sales and beat expectations mainly with brands such as Knorr, Bango and Pot Noodle.

In 2018 we are observing a change in the sales strategy of the top FMCG companies such as Procter & Gamble (P&G), Unilever and Nestlé which are now shifting strategy and upping prices, with the aim of increase revenues due to improving economic conditions. In order to do so, these companies are focusing on innovation.

Price rising strategy helped both Unilever and Nestlé boost underlying sales by 3.8% and 2.8%, respectively. P&G, meanwhile, had its strongest quarter in five years with organic sales up 4%.

General and global conditions for the fast-moving consumer goods (FMCG) industry have been positive during the second-quarter of 2018. Although the FMCG market is highly promising for the near future, we can find some differences along countries and regions. In some markets, GDP growth continued to slow in the second quarter of 2018, as is the case of the Western Europe’s largest economies; and in other markets, as Asia, GDP increased across all markets with a strong economic growth. In Latin America, where economic conditions have been unsteadied in recent quarters, GDP grew nearly 2%.

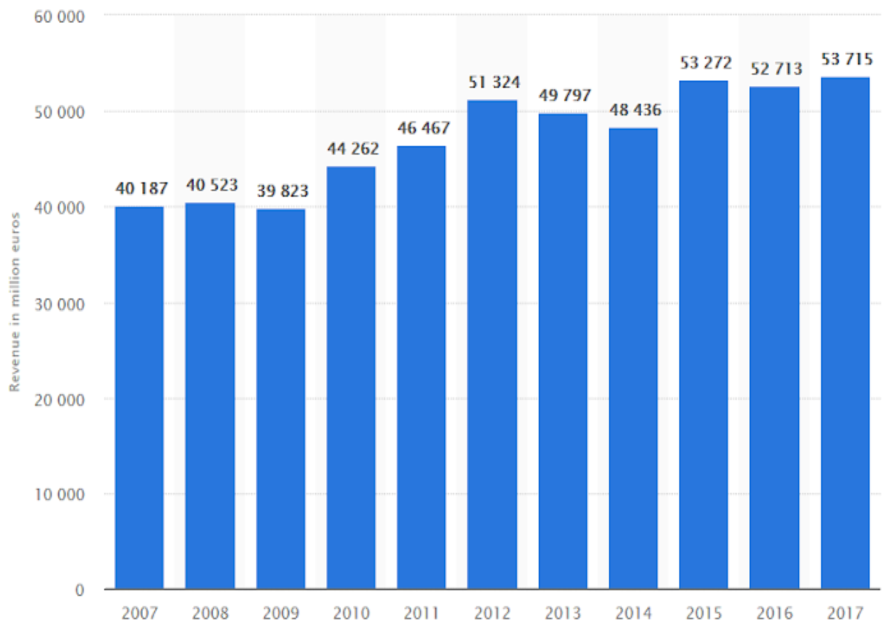

Figure 3. *Revenue of the Unilever Group worldwide from 2007 to 2017 (in million euros). (Source: Statista, 10/2018)*

3. Present situation of the company

As mentioned before, Unilever is a dual-listed company that consists of two main business: Unilever PLC, based in London, and Unilever N.V., based in Rotterdam. The two of them operate as a single business, having a common board of directors. However, the company doubted in March of 2018 about ending its dual Anglo-Dutch structure because of the "Brexit" (Great Britain's decision to leave the European Union). Nonetheless, on the 5th of November, the company has announced that, for now, the plan has been cancelled. The chairman stated that the reason of withdrawal of moving from London was due to the negative support of its shareholders.

3.1. Future of the market: Future development of products and services

The company Unilever is organized into three main divisions: (1) Personal care, (2) Home care, (3) Food and Refreshment (mainly beverages).

Since 2005, when the new CEO - Paul Polman - arrived, the company shifted its focus away from foods brands towards health and beauty brands, as they generate greater profits.

Unilever claims that their main purpose is to "make sustainable living commonplace", thus sustainable growth is their focus now. In order to achieve this purpose, the company has the aim of tackling 17 of world's most urgent challenges, among the ones we find: the increasing gap between rich and poor, global warming, unstable markets, etc. For this reason, they have developed the Business & Sustainable Development Commission, who is in charge of the Sustainable Development Goals (SDGs). Unilever's focus is on science, technology and product development, in order to continue growing through expanding their products while having a positive impact on the environment and society.

3.2. Advertisement and distribution channels

Unilever's largest international competitors are Nestlé and Procter&Gamble. In order to face them, Unilever has been ultimately searching for new countries to introduce their products. As stated before, in the last term the company achieved a great part of the turnover in emerging markets.

Furthermore, Unilever is one of the biggest media buyers, investing billions in advertising and promotion. It is very important for the company to be able to influence customers' purchasing decisions, as social media offer new ways for customers to find latest products and compare them with those of the competitors. In relation to this operational aspect, in 2016 the company launched an initiative to show not stereotyped portrayals of people in advertising.

3.3. Key success factors

When it comes to key success factors of the firm, we can find the ones already stated in the SWOT analysis. However, there are also financial success factors.
On the one hand, we find financial performance indicators.

- Increasing sales, with growth in all four divisions of the industry.
- Both return on investment (ROI) and return on equity (ROE) are high, which means the company has a high profitability.

On the other hand, non-financial performance indicators play also a big role for the sustainable growth of a company. Nowadays, Unilever is driving a positive change and sustainable growth plan through their business, with the aim of improving the way the world does business. In order to increase their social impact, they have developed the 'Unilever Sustainable Living Plan' following the UN Sustainable Development Goals. Their plan has three main goals:

1. Improve health and well-being for more than 1 billion (plan aimed to be accomplished in 2020).
2. Reducing environmental impact by half. This plan is set until 2030, and its main concernings are: greenhouse gases, water use, waste & packaging and sustainable sourcing.
3. Enhance livelihoods for millions (fairness in the workplace, opportunities for women...), by 2020.

All in all, Unilever is trying to expand their social, environmental and economic performance. Until now, they have increased their sales, have a strong performance in emerging markets and are ahead of innovation.

Moreover, one of the key success factors of the firm is their diversification policy: nowadays, they are working on a wide portfolio of projects, combining the search for breakthrough technologies, which can make a big impact, with the constant drive to face new demands, face competitors, get into new markets; all these without forgetting their main goal, that is, making their products more sustainable. In order to get deeper with their ambition of making a positive impact on the world, they are searching for partnerships with scientists, academic institutions, suppliers and working closely with universities.

Since Unilever aims at growing by continuously expanding their products, they have built up six main R&D centers in the US, UK, Netherlands, India and China. From the accounts, we know that they invest around €1 billion in R&D each year.

4. Holistic view

Before analysis the financial statements of the company it is important to highlight that in the past year Unilever has been under a big purchase of estate shares which amounts 5,014 million euros, therefore we expect the cash flow from financing activities in 2017 to be negative. Since, in pasts years there was no investment in shares, it makes a huge difference. The importance of this is that we can foresee an intention of Unilever to growth and expand.

To understand the present situation of the company it is also important to analyze the future perspectives of the firm. The core business strategy of Unilever is to increase their returns from emerging markets, since these markets have experienced recently an increase in buying power. Nowadays, an important percentage of their total sales, around 57 % are gained through developing countries. Compared with the others emerging markets in which Unilever has presence, India is the country that provides them with higher revenues. So now the company is trying to discover how to introduce these brands that are having great success in India to other countries in emerging markets, as Asia or Africa.

Moreover, even though it is stated along the paper that the CEO of Unilever is Paul Polman. It has been stated this past 29^{th} of November that starting in January of 2019 Paul Polman will retire and Alan Jope - who was running Unilever's China operations - will succeed him as chief executive officer. Paul Polman would be supervising the new CEO until summer of the following year.

5. Questions

You are asked to answer the following:

1. Prepare a qualitative analysis of Unilever including its main strengths and weaknesses.
2. Compute a Working Capital Analysis.
3. Prepare a quantitative analysis of Unilever using the analysis of the balance sheet, income statement and cash flow statement from 2013 to 2017.
4. Does Unilever have capacity to grow?
5. Calculate the Z score developed by the UPF from 2003 to 2017. Could they have foreseen the insolvency of the company? In 2005, would you have recommended the investor to buy Unilever with debt?
6. Prepare a Cause & Effect Diagram
7. Prepare recommendations for the company and prove their effectiveness.

6. Appendix: Financial statements [2]

CONSOLIDATED BALANCE SHEET	Main competitor	2017	%	2016	%	2015	%	2014	%	2013	%
NON CURRENT ASSETS	**80.29%**	**41,191,347**	**70.78%**	**41,784,334**	**75.09%**	**38,750,999**	**75.3%**	**35,220,511**	**74.09%**	**32,188,485**	**72.77%**
Intangible Assets	58.38%	28,444,810	48.87%	27,389,787	49.22%	25,106,684	48.78%	22,121,931	46.53%	20,766,803	46.95%
Tangible assets and equipment	17.41%	10,426,834	17.92%	11,654,285	20.94%	11,078,520	21.53%	10,447,753	21.98%	9,283,027	20.99%
Other current liabilities	4.5%	2,319,703	3.98%	2,740,262	4.92%	2,565,796	4.99%	2,652,112	5.58%	2,137,461	4.83%
CURRENT ASSETS	**19.71%**	**17,008,527**	**29.22%**	**14,862,367**	**24.91%**	**12,710,556**	**24.7%**	**12,318,244**	**25.91%**	**12,042,620**	**27.23%**
Inventories	4%	3,967,943	6.82%	4,271,448	6.68%	4,343,477	8.44%	4,158,789	8.75%	3,910,717	8.84%
Accounts recievable	3.96%	3,444,066	5.92%	3,323,794	5.97%	2,922,421	5.68%	2,820,520	5.93%	2,833,628	6.4%
Other current assets	9.57%	9,597,645	16.49%	6,267,125	11.26%	5,444,659	10.58%	5,338,934	11.23%	5,297,081	11.98%
Cash and equivalents	2.17%	3,322,392	5.71%	3,376,311	6.07%	2,305,813	4.48%	2,145,601	4.51%	2,270,007	5.13%
TOTAL ASSETS	**100%**	**58,199,874**	**100%**	**55,646,701**	**100%**	**51,461,556**	**100%**	**47,538,755**	**100%**	**44,231,105**	**100%**
NET EQUITY	**44.7%**	**14,409,423**	**24.76%**	**16,952,748**	**30.47%**	**16,112,107**	**31.31%**	**14,229,873**	**29.93%**	**14,717,431**	**33.27%**
Capital		384,445	0.66%	483,164	0.87%	484,575	0.94%	483,371	1.02%	481,227	1.09%
Other shareholders funds		13,923,852	23.92%	16,470,751	29.6%	15,627,532	30.37%	13,746,502	28.91%	14,237,398	32.19%
NON-CURRENT LIABILITIES	**31.43%**	**20,578,774**	**35.36%**	**18,169,994**	**32.65%**	**15,292,686**	**29.71%**	**13,713,078**	**28.85%**	**12,244,425**	**27.68%**
Long-term debt	17.63%	16,152,299	27.25%	11,117,436	19.98%	9,665,631	18.78%	6,908,604	14.53%	7,342,595	16.6%
Other non-current liabilities	8.59%	4,427,602	7.61%	7,052,558	12.67%	5,627,055	10.93%	6,805,759	14.32%	4,901,830	11.08%
Long-term provision	5.20%	2,711,766	4.66%	3,089,214	5.55%	2,701,912	5.25%	2,604,546	5.48	2,400,165	5.43%
CURRENT LIABILITIES	**23.87%**	**23,212,803**	**39.88%**	**20,523,959**	**36.88%**	**20,056,763**	**38.97%**	**19,595,804**	**41.22%**	**17,268,055**	**39.04%**
Short-term loans	8.8%	7,717,322	13.26%	5,266,952	9.47%	4,389,756	8.53%	5,016.258	10.55%	3,519,048	7.96%
Accounts payable and other short term non-operating debt	8.74%	8,229,932	14.14%	8,577,908	15.41%	8,311,272	16.15%	7,618,234	16.02%	6,948,538	15.71%
Other current liabilities	6.33%	7,266,675	12.49%	6,680,265	12%	7,355,734	14.29	6,961,312	14.64%	6,800,468	15.38%
TOTAL LIABILITIES AND EQUITY	**100%**	**58,201,001**	**100,00%**	**55,646,701**	**100%**	**51,461,556**	**100%**	**47,538,755**	**100%**	**44,229,911**	**100%**

Table 1: *Balance Sheet from 2013 to 2017 (in thousand €). (Source: Amadeus Database).*

[2] As Unilever performs in many different industries and it competes against many different international companies that might have different standards, it is better to compare Unilever's financial performance against its main competitor which is Procter & Gambler, as it has same similar products and it acts in similar markets.

CONSOLIDATED INCOME STATEMENT	Main competitor (%)	2017	%	2016	%	2015	%	2014	%	2013	%
TURNOVER	**NO INFO**	**53,797,057**	**1**	**52,629,845**	**1**	**53,372,631**	**1**	**48,321,661**	**1**	**49,469,675**	**100,00%**
Sales	1	NO INFO		NO INFO		NO INFO		NO INFO		NO INFO	
Cost of materials	51.27%	30,593,267	57.53%	30,181,400	47.35%	30,865,772	57.83%	28,319,620	58.6%	29,052,747	58.73%
GROSS MARGIN	**48.75%**	**23,203,790**	**43.13%**	**22,448,445**	**42.65%**	**22,506,859**	**42.17%**	**20,002,041**	**41.4%%**	**20,416,928**	**41.27%**
Other operating expenses	28.2%	14,332,813	26.64%	14,659,470	27.85%	14,976,896	28.06%%	12,040,563	24.92%	12,948,951	26.18%
OPERATING RESULT (EBIT)	**20.52%**	**8,870,977**	**16.49%**	**7,788,974**	**14.8%**	**7,528,602**	**14.1%**	**7,961,478**	**16.47%**	**7,467,977**	**15.1%**
Financial Income	0.37%	-148,713	0.28%	252,085	0.48%	343,014	0.64%	259,683	0.54%	96,723	0.2%
Financial expenses	0.95%	556,548	1.03%	584,531	1.11%	638,386	1.2%	592,644	1.23%	496,751	1%
Financial result	0.58%	-705,262	-1.31%	-331,446	-0.63%	-295,373	-0.55%	-332,960	-0.69%	-400,028	-0.81%
EARNINGS BEFORE TAXES (EBT)	**19.94%**	**8,165,715**	**15.18%**	**7,457,529**	**14.17%**	**7,233,229**	**13.55%**	**7,628,518**	**15.79%**	**7,066,755**	**14.29%**
Income tax	14.75%	1,669,645	3.1%	1,918,651	3.65%	1,964,161	3.68%	2,216,318	4.59%	1,838,933	3.72%
NET PROFIT	**4.75%**	**6,496,070**	**12.07%**	**5,538,878**	**10.52%**	**5,269,069**	**9.87%**	**5,502,200**	**11.39%**	**5,227,823**	**10.57%**
Earnings per share	2.79	2.16		1.83		1.73		1.82		1.71	

Table 2. *Income Statement from 2013 to 2017 (in thousand €). (Source: Amadeus Database).*

CASH FLOW STATEMENT	2017	2016,000	2015	2014	2013
Operating profit	8,857	7,801	7,515	7,98	7,517
Depreciation, amortization and impairment	1,538	1,464	1,37	1,432	1,151
Changes in working capital	-68	51	720	8	200
Inventories	104	190,000	-129	-47	168
Trade and other receivables	-506	142	2	82	-917
Trade payables and other liabilities	542	-281,000	847	-27	949
Pensions and similar obligations less payments	-904	-327	-385	-364	-383
Provisions less payments	200	65,000	-94	32	126
Elimination of profits/losses on disposals	-298	127	26	1,46	-725
Non-cash charge for share-based compensation	284	198,000	150	188	228
Other adjustments	-153	-81	49	38	-15
Cash flow from operating activities	9,456	9,298	9,351	7,854	8,099
Income tax paid	-2,164	-2,251	-2,021	-2,311	-1,805
NET CASH FLOW FROM OPERATING ACTIVITIES	7,292	7,047	7,33	5,543	6294
Interest received	154	105	119	123	100
Purchase of intangible assets	-158	-232,000	-334	-359	-377
Purchase of property, plant and equipment	-1,509	-1,804	-1,867	-1,893	-1,791
Disposal of property, pland and equipment	46	158,000	127	207	141
Acquisition of group comapnies, joint ventures	-4,896	-1,731	-1897	-313	-142
and associates	561	30,000	199	1,741	1,053
Disposal of group companies, joint ventures	-317	-208	-78	-82	-273
and associates	251	173,000	127	69	302
Acquisition of other non-current assets	138	186	176	162	136
Disposal of other non-current assets	-149	135,000	-111	4	-310
NET CASH FLOW FROM INVESTING ACTIVITIES	-5,879	-3,188	-3,539	-341	-1,161
Dividends paid on ordinary share capital	-3,916	-4,609	-3,331	-3189	-2,993
Interest and preference dividends paid	-470	-473	-579	-521	-511
Acquisition of non-controlling interests	-448	-	-	-	-2,901
Purchase of estate shares	-5,014	-	-	-880	-
Net change in short.term borrowings	2,695	258,000	245	338	350
Additional financial liabilities	8,851	6,761	7,566	5,174	4,219
Repayment of financial liabilities	-2,604	-5,213	-6270	-5,305	-3,294
Capital element of finance lease rental payments	-14	-35	-14	-16	-11
Other movements on treasury stock	-204	-257,000	-276	-467	24
Other financing activities	-309	-506	-373	-324	-273
NET CASH FLOW FROM FINANCING ACTIVITIES	-1,433	-3,073	-3,032	-5,19	-5,39
Effect of foreign exchange rate changes	-9	284	-541	-146	84
Net increase in cash and equivalents	-29	1070	218	-134	-173
Cash and cash equivalents at the beggining	3,198	2,128	1,91	2,044	2,217
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	3,169	3,198	2,128	1,91	2,044

***Table 3**. Cash Flow Statement from 2013 to 2017 (in million €). (Source: Unilever 11/2018)*

RATIOS	Main competitor	2017	2016	2015	2014	2013
DEBT AND CAPITALIZATION						
Debt = Liability / Assets	0.553	0. 752	0.695	0.686	0.700	0.667
Debt Quality = CL / TL	0.431	0.530	0.530	0.567	0.588	0.585
Repayment Capacity = Cash Flow / Loans	0.048	-0.0012	0.0653	0.0155	-0.019	-0.0159
Cost of debt = Financial expenses / Loans	0.027	0.023	0.035	0.045	0.085	0.045
Financial expenses = Financial expenses / turnover	0.009	0.010	0.011	0.011	0.012	0.010
LIQUIDITY						
Liquidity = CA / CL	0.88	0.73	0.7	0.69	0.7	0.67
Treasury = Debtors + Cash / Current Liabilities	0.26	0.29	0.33	0.26	0.25	0.3
Acid test = Cash / CL	0.09	0.14	0.16	0.11	0.11	0.13
ASSET MANAGEMENT						
Non-current assets turnover =Turnover/Non Current Assets	0.69	1.3	1.26	1.38	1.37	1.54
Current assets turnover= Turnover/ current assets	2.45	3.16	3.54	4.2	3.92	4.11
DEADLINES						
Inventory days= Stocks/Daily cost of sales	51.87	47.34	51.66	51.36	53.60	49.13
Days receivable= Clients/Daily Sales	25.77	23.37	23.05	19.99	21.30	20.91
Days payable= Suppliers/Daily cost of sales	108.06	98.19	103.74	98.28	98.19	87.30
SALES						
Turnover growth= Last year's turnover/previous year turnover	0.99	1.02	0.986	1.105	0.977	-
PROFITABILITY, SELF-FINANCING and GROWTH						
Return on assets (ROI)=EBIT/Assets	0.11	0.152	0.14	0.146	0.167	0.168
Return on equity (ROE) = Net income/Equity	0.27	0.45	0.33	0.33	0.39	0.36
Cash flow/Sales	0.0236	-0.00054	0.0203	0.004	-0.0028	-0.0035
Cash flow/Assets	0.0127	-0.0005	0.019	0.0042	-0.0028	-0.004
Dividends/Net profit	0.47	0.072	0.085	0.11	0.095	0.098
Dividends/Net equity	0.13	0.033	0.028	0.036	0.037	0.035

Table 4. *Comparison of the ratios with the main competitor (2013-2017)*

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Proposed answers to the questions:

1. Prepare a qualitative analysis of Unilever including its main strengths and weaknesses.

In order to analyze the qualitative aspects of the company, a who-what- how analysis is useful, computed in figure 4 (see below).

	STRENGTHS	WEAKNESSES
WHO	- **Recognising employees and entrepreneurs.** Programmes with the aim to motivate employees: - Unilever Heroes, recognising employees having extraordinary initiative, integrity and commitment. - Young Entrepreneur Awards, supporting young innovators. - **Adequate training level.** Paul Polman, CEO of Unilever, worked in the Companies Nestle and P&G, main competitors of Unilever, thus he has experience in the sector. - **Experienced CEO**: Paul Polman, he worked in the Companies Nestle and P&G, thus he has experience in the sector. - **Loyal customers** believe in the brand reputation.	- **Shareholders divided** about the policies that should be addressed respect to the Brexit
WHAT	- **Diversified portfolio** of products and geographical markets, in order to avoid risk and take advantage of changes in consumers' preferences and emerging markets - **High quality of products and materials.** - **Efficient manufacturing.** - **Effective plans** designed to first improve risk and then contingency plans to deal with the aftermath of whatever disruption does come up → Such plans, for instance, are designed to enable the company to secure alternative material supplies on short notice, to transfer or share production between manufacturing sites, and to use substitute materials in our product formulations and recipes. Additionally, these contingency plans also extend to an ability to intervene directly to support a key supplier should it, for any reason, find itself in difficulty or at risk of negatively affecting a Unilever product. - They operate in an industry with **great future potential** and perspectives, as the products that they sell can be categorized as basic needs. - **Economies of scale.** - **Strong brands**, with great satisfaction among consumers.	- **Imitable products.** - **Strong competition in the sector** (might be difficult expanding in Asia due to the high competition in the area). - **Limited diversification** outside the consumer goods industry. - **Availability of substitutes** with low switching costs; there is abundance of substitute products in the sector, with almost zero switching costs for an end-user. - **Low power of negotiation** with some of their retailer clients such as Tesco.
HOW	- **Corporate social responsibility.** - **Unilever Sustainable Living Plan (USLP)** - ahead of innovation: following their ambition to grow sustainably, science, technology and product development are central to their innovation plan. - **Ahead of innovation**: following their ambition to grow sustainably, science, technology and product development are central to their innovation plan. - **Operating model** designed to deliver faster decisions.	- **Depend on retailers.** The company lacks direct strong influence on consumers, considering that retailers are the ones who directly affect buyers. - **Inefficient management of brands**: Unilever has almost 400 different brands which is very difficult to manage to reap ultimate benefit. This huge portfolio of brands has created inefficiency. Top 25 brands of Unilever account for 73% of global turnover, which means rest of 375 brands account for only 27%.

Figure 4. *Qualitative analysis (Who, What, How) and study of strengths and weaknesses of Unilever. (Source: Unilever Annual Report / Unilever Communications, 10/2018)*

2. Compute a working capital analysis.

In order to analyze the working capital of Unilever it is not enough to compute the real working capital, instead, this indicator should be compared with the working capital needs. By computing the difference between both we can find out whether the company is running on a surplus or on a deficit in working capital.

On the one hand, the real working capital is the difference between current assets and current liabilities found in the balance sheet.

On the other hand, the working capital needs is understood as the working capital the company needs in order not to have liquidity problems. We find it by subtracting from the operating current assets (inventories, trade debtors, receivables and minimum cash[3]) the operating current liabilities (trade creditors, debt on taxes and Social Security and other trading debts).

Both indicators are shown in figure 5 (see below).

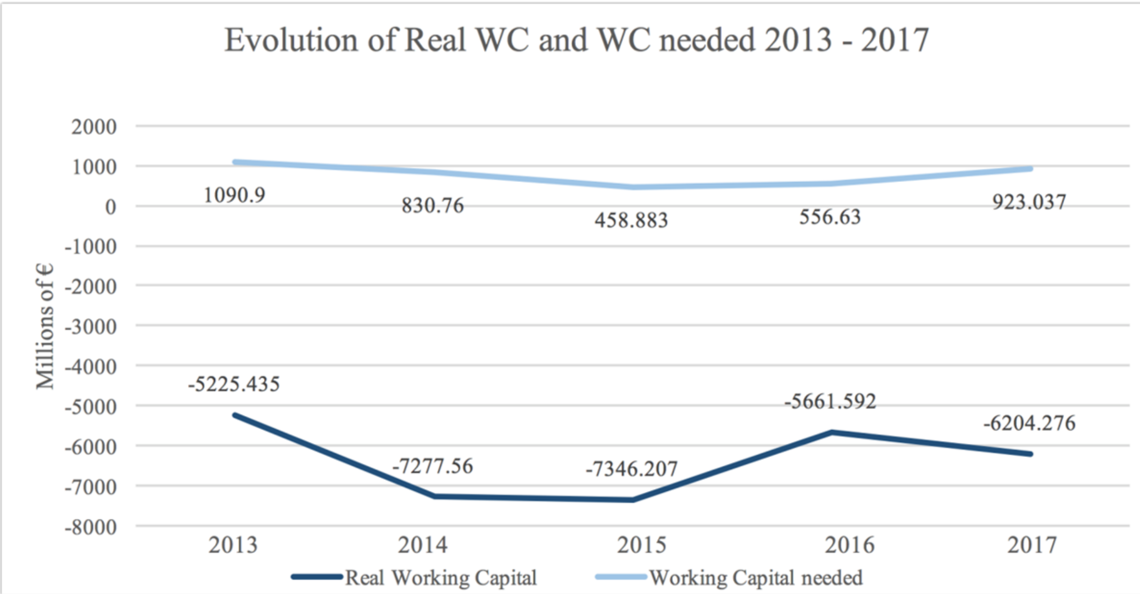

Figure 5. *Real and needed working capital 2013 – 2017 (source: data from Appendix)*
Unilever has been running on a deficit for the last 5 years (see figure 6).

As we can see, Unilever is running a working capital deficit. This deficit is indicating a problem of liquidity. This is an issue the company should take care in the short term,

[3] Minimum cash is computed as a 7.5% of the current liabilities amount shown in the balance sheet.

since it is affecting the business currently. The evolution of the working capital deficit is shown below (see figure 6).

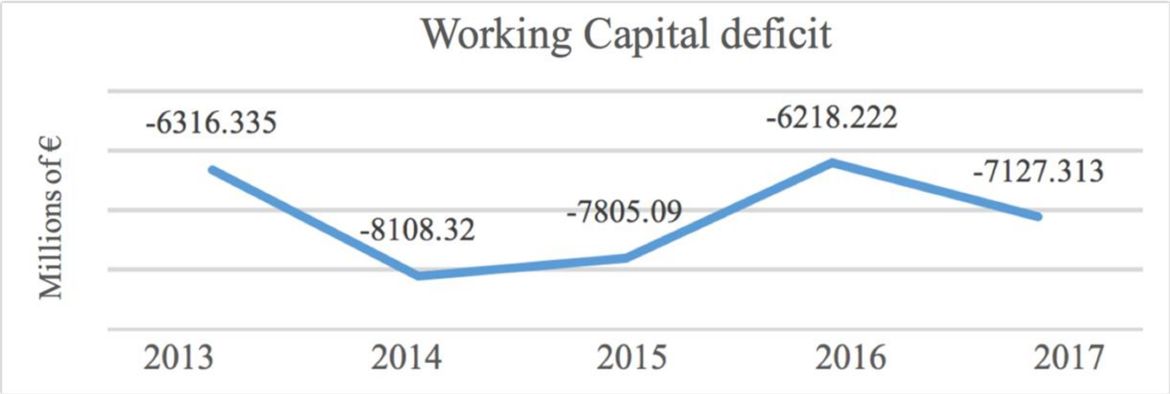

Figure 6. *Working capital deficit 2013-2017 (source: data from Appendix).*

3. Prepare a quantitative analysis of Unilever using the analysis of the balance sheet, income statement and cash flow statement from 2013 to 2017.

The quantitative analysis can be done by identifying the company's main financial strengths and weaknesses (see figure 5).

		STRENGHTS	WEAKNESSES
BALANCE SHEET	LIQUIDITY		- Working capital deficit. - Liquidity ratio (CA/CL) =0.73 (competitor 0.88)
	DEBT	- Debt is profitable ⇒ Cost of debt < ROI = 2.3% < 15.2%	- Total debt is higher than competitor (0.752 against 0.553) - Repayment capacity is negative → the company cannot repay its loans
	ASSET MANA-GEMENT	- Non-current assets turnover is 100% higher than competitor - Current assets turnover is 30% higher than competitor	Equity / Assets= 0.248 (too many liabilities) competitor has 0.447
	TERMS	- Lower inventory days than competitor (Unilever sells faster) - Days payable > days receivable 98.19 >23.37 → 75 days between being paid and having to pay	- Days payable, 98.19 vs 108.06 from competitor. - The competitor has 10 more days than Unilever to pay its trade debtors.
INCOME STATEMENT	SALES	- Increased in sales of 2% last year, whereas competitor has decreased 1% - Over the last 5 years sales of the company have grown 8.75%	
	EXPENSES	- 1.5% less in other operating expenses than competitor (26.6 vs 28.2%) - Financial expenses =1% (ideal to have less than 2%)	- COGS 57% vs 51% of competitor w/ respect to sales
	PROFIT	- Net profit/ Sales is 12% - ROI 15.2% ⇒ substantial profitability of investments - ROE 45% (18% higher than competitor)	
CF state	CASH FLOWS	- Cash from operating activities is positive → main activity produces cash	- Negative change in cash - Substantial dividends paid→ ≅50% of cash generated
	GROWTH		- Unbalanced growth based on debt. sadE sales growth: 2.21% assets growth: 4.6% debt growth: 13.17% earnings growth: 17%

Figure 5. Financial strengths and weaknesses of the company. (Source: interpretation from authors)

4. Does Unilever have capacity to grow?

To analyze the capacity that a company has to grow it is important to know which the capacity is the company has to grow without increasing equity. This is known as the self-growth of a company. In other words, the potential growth of a company originated only by their generated income and maintaining a constant debt level.

We can analyze the sustainable growth rate by using the Higgins Model (see equation 1).

$$Sustainable\ growth\ rate = \frac{M\ (1-D) \cdot (1+L)}{A-M\ (1-D) \cdot (1+L)}$$ where:

- M = net profit / sales[4]
- D = dividends / net profit
- L = debt / equity
- A = assets / sales

Equation 1. Self-sustained growth. Higgins Model. (Source: Higgins, R. "How much growth can a firm afford", Financial Management 6 (3), p. 7-16, 1977.)

The data for those ratios (see table 6) can be calculated from the Balance sheet and the Income statement (see table 5).

	2017	2016	2015	2014	2013
Net Profits	6,496,070	5,538,878	5,269,069	5,502,200	5,227,823
Turnover	53,797,057	52,629,845	53,372,631	48,321,661	49,469,675
Debt	43,791,577	38,693,953	35,349,449	33,308,882	29,512,480
Equity	14,409,423	16,952,748	16,112,107	14,229,873	14,717,431
Assets	58,199,874	55,646,701	51,461,556	47,538,755	44,231,105

[5] ***Table 5.*** *Necessary information to calculate the ratios. (Source: Balance Sheet from the appendix).*

[4] As there is no information about the sales of the company, in order to compute the ratios of net profit/sales and assets/sales the turnover will be used instead.
[5] Dividends not showed since the dividend/net profit ratio was already calculated before.

	2017	2016	2015	2014	2013
M	0.12	0.11	0.10	0.11	0.11
D	0.072	0.085	0.11	0.095	0.098
L	3.04	2.28	2.19	2.34	2.01
A	1.08	1.06	0.96	0.98	0.89

Table 6. *Necessary ratios to compute the self-sustained growth formula. (Source: ratios from the appendix)*

The sustainable growth rate for each year can be computed using the formula (see table 7).

	2017	2016	2015	2014	2013
Sustainable growth rate	71.93%	42.64%	41.05%	53.83%	47.14%

Table 7. *Possible growth rate for each year. (Source: own creation using the data shown above).*

The possible growth for Unilever is really high and it has increased overtime since the debt is also increasing. Therefore, the trend fir the last two years seems to be increasing (see figure 6).

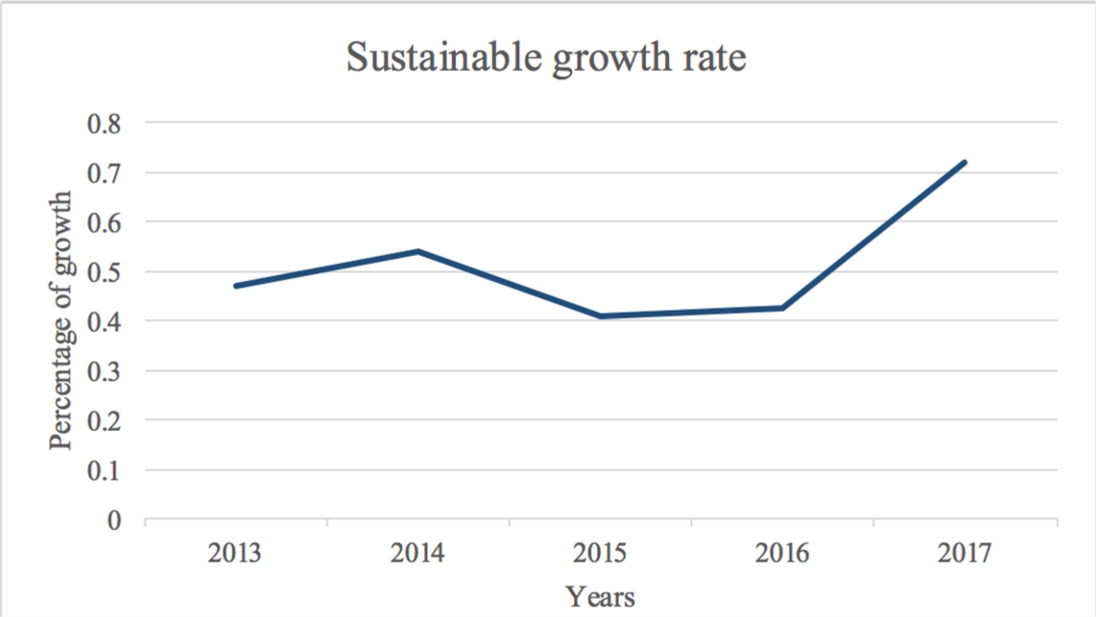

Figure 8. *Sustainable growth rate of Unilever computed with Higgins Model. (Source: table 7).*

5. Calculate the Z score developed by the UPF from 2003 to 2017. Could they have foreseen the insolvency of the company? In 2005, would you have recommended the investor to buy Unilever with debt?

The Z score is a multi-dimensional tool that allows us to assess the risk of default of a company. There have been developed many multidivisional Z-scores throughout the years, however, we are going to use the one developed by a UPF study[6]. It is done by computing a formula in which we use 4 ratios weighted differently. The UPF Z-score uses the liquidity ratio, equity/total assets, ROI and ROE (see equation 2). This Z-score is characterized by distinguishing the risk of default, when the result of the Z-score is a number below 0, the company will have a high probability of facing a default situation, on the other hand, if the result is greater than 0, the company will have a high probability of having a good solvency position.

The formula developed by UPF is the following:

$$\mathbf{-3{,}9 + 1{,}28\, x_1 + 6{,}1\, x_2 + 6{,}5\, x_3 + 4{,}8\, x_4}$$

- x_1 = Current Assets / Current Liabilities
- x_2 = Equity / Assets
- x_3 = Net Profit / Assets
- x_4 = Net Profit / Equity

Equation 2. *Z-Score by the UPF study. (Source: shown below at the note).*

The results of the application of this multidivisional tool is shown below (see Table 8).

	Main competitor	2017	2016	2015	2014	2013
x1= CA/CL	0,880	0,730	0,700	0,690	0,700	0,670
x2=E/A	0,447	0,248	0,305	0,314	0,300	0,333
x3= EBIT/ASSETS	0,110	0,152	0,140	0,146	0,167	0,168
x4=NET PROFIT/EQUITY	0,270	0,450	0,330	0,330	0,390	0,360
Z SCORE	1,9641	1,6952	1,3505	1,4316	1,7835	1,8089

Table 8. *Data and results of the application of the UPF Z-score for Unilever and its main competitor (P&G).*

6 Amat, O., Manini, R. and Antón, M. (2016): Credit Concession through- redit scoring. Analysis and application proposal, Intangible Capital.

According to these results, Unilever is in a good position relating risk of default in 2017 as the result is 1.6952 which is a strictly positive number. If we analyze the result over the last years, we see how from 2013 to 2014 there was a decrease in the result, which has a sharper drop the year after. It was also followed by a third drop in 2016, however we can see how it recovered in 2017 even though it is not yet at the level of 2013 which was 1.8089.

Comparing the company's results to the one of their competitor, it is important to highlight that relating to risk of default the Z-score analysis predicts that Unilever has a slightly higher risk than its direct competitor, this might indicate that the competitor's financial position might be a better one.

All in all, the Z score developed by UPF shows that the company has a high probability of good solvency.

6. Prepare a Cause & Effect Diagram

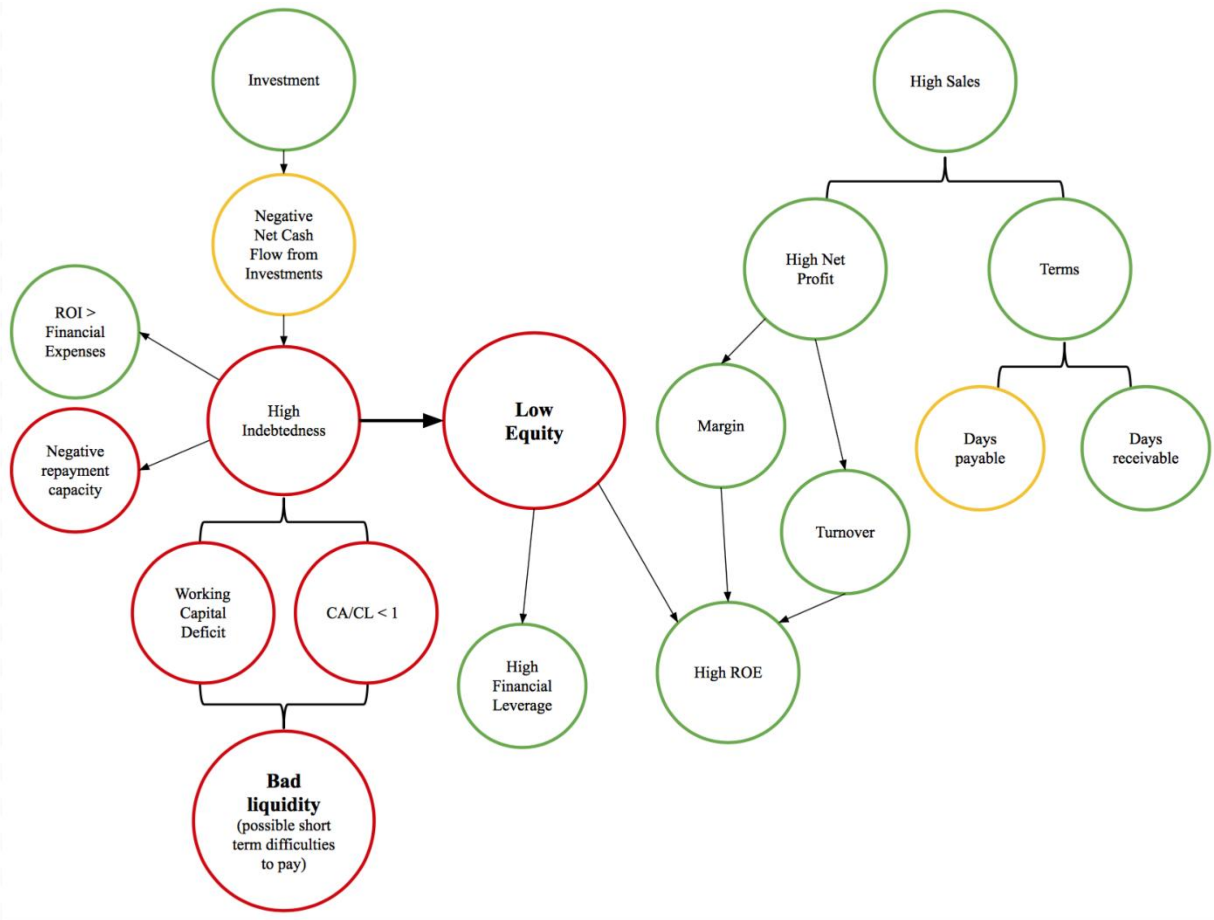

Figure 7. *Cause and effect diagram of Unilever Finances. (Source: own creation)*

7. Prepare recommendations for the company and prove their effectiveness.

After analyzing the 2017 financial statements of Unilever and performing a quantitative analysis the main problems the company is facing and the ones that should be redeem are the low liquidity and the high indebtedness.

In order to address these issues, the company should follow the recommendation to increase capital for 10 thousand million euros since by doing this, various problems would be fix. This increase in capital should be used to liquidate short-term debts.

Indeed, it will be useful to diminish short-term loans by 5 thousand million euros and to diminish accounts payable by another 5 million euros. Thus, the company will lower its current liabilities which were substantially higher previously (see table 8).

	OLD	NEW	CHANGE
NET EQUITY	**14,409,423**	24409423	+10,000,000
NON-CURRENT LIABILITIES	**20,578,774**	**20,578,774**	**0**
Long-term debt	16,152,299	16,152,299	0
Other non-current liabilities	4,427,602	4,427,602	0
Long-term provision	2,711,766	2,711,766	0
CURRENT LIABILITIES	**23,212,803**	13.212.803	-10,000,000
Short-term loans	7,717,322	2.717.322	-5,000,000
Accounts payable and other short term non-operating debt	8,229,932	3.229.932	-5,000,000
Other current liabilities	7,266,675	7,266,675	0
TOTAL LIABILITIES AND EQUITY	**58,201,001**	**58,201,001**	0

Table 9. *Demonstration in Balance Sheet (In thousand euros). (Source: own creation using data from the Balance Sheet in the appendix).*

In the following figure (table 10), we show how the changes recommended shift some ratios.

	NEW	MAIN COMPETITOR	2017	2016	2015	2014	2013
Return on equity (ROE) = Net income/Equity	0.26	0.27	0.45	0.33	0.33	0.39	0.36
liquidity= CA/CL	1.28	0.88	0.73	0.7	0.69	0.7	0.67
Equity / Assets	0.42	0.447	0.248	0.305	0.314	0.3	0.333

***Table 10**. Demonstration in ratios. (Source: own creation).*

Starting from the bottom, equity/assets improves from 0.248 to 0.42 which is the ideal value for this ratio and very close to the one from the main competitor. As a result, ROE will decrease, however this is not a problem as we see that we are like our competitor, and the previous ROE was just a result of having a really low equity that was a problem indeed.

Lastly, in order to make sure the liquidity problems are solved, we see how our recommendations change the liquidity ratio from 0.73 to 1.28, which is not still at the ideal value of 1.50. However, we should not take this value as ideal in this case as the characteristics of Unilever which is a consumer goods company make this ratio lower due to the repayment terms of this kind of industry. In this case the 1.28 of the ratio is 0.4 higher than the competitor's, which can give a glimpse of how the company is better off after following the recommendations.