



Unilever Hungry for More Acquisition Opportunities

Price \$57.13

Core Holding

August 11, 2021

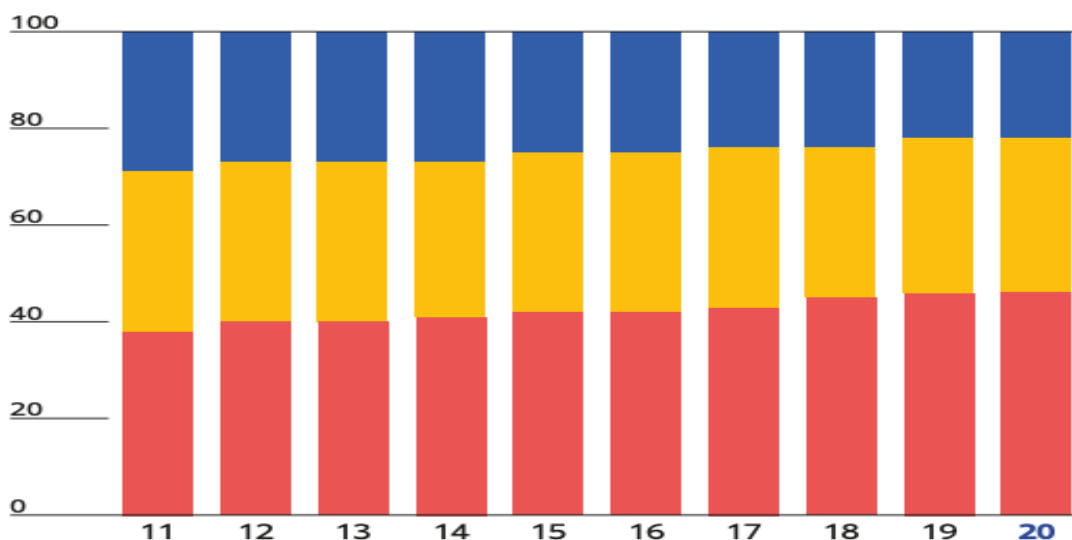
- Strong consumer brands in emerging markets.
- A diverse range of products across consumer staples and consumer discretionary categories.
- Strategic acquisitions of products already in demand by consumers.
- 400 brands across 190 countries.
- Short-term inflation pressure should dissipate by 2022.
- Modest but steady growth combined with a 3.5% dividend yield.

Investment Thesis

While Unilever (UL) may not be a household name, the products they manufacture and distribute most definitely are. 2.5 billion people a day across 190 countries use Unilever's 400 brands, including Axe, Ben and Jerry's, Lipton, Vaseline, and Hellmann's.

By geographical area
as % of total turnover

Asia/AMET/RUB
The Americas
Europe



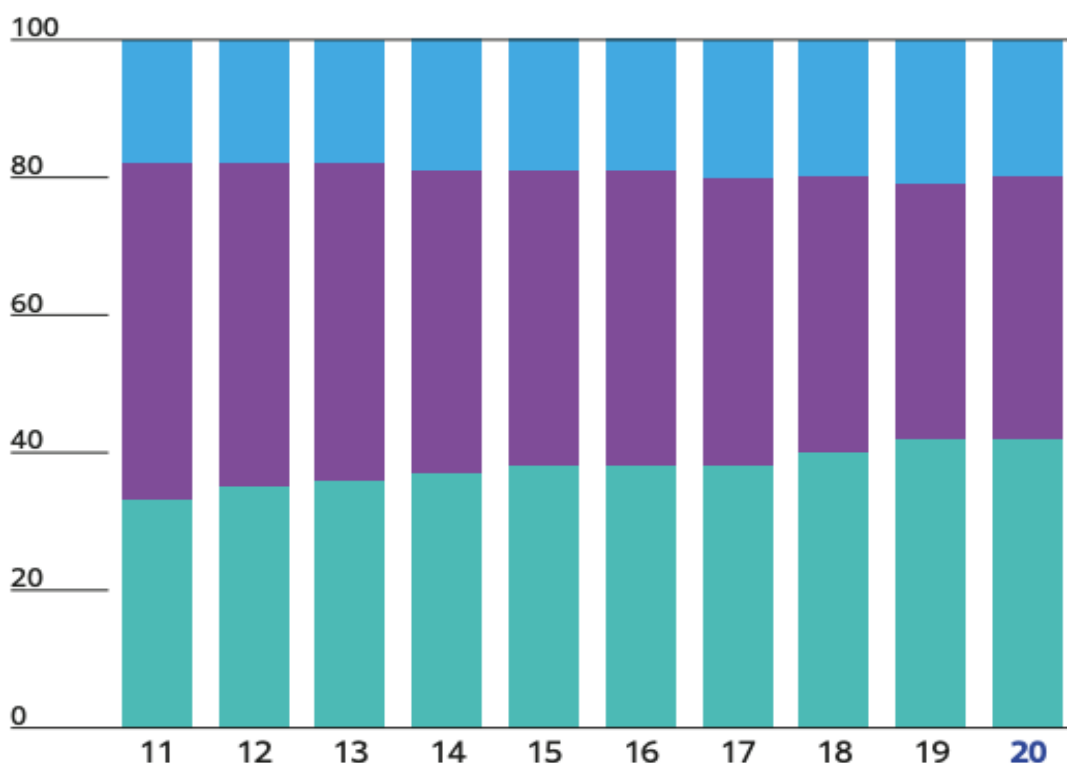
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As the COVID-19 pandemic winds down, it is likely that consumer discretionary spending will increase as more people regain employment. For this reason, coupled with an expansionary M&A, we believe that Unilever will remain a good stock for dividends and modest capital appreciation.

Product Groupings

By product area
as % of total turnover

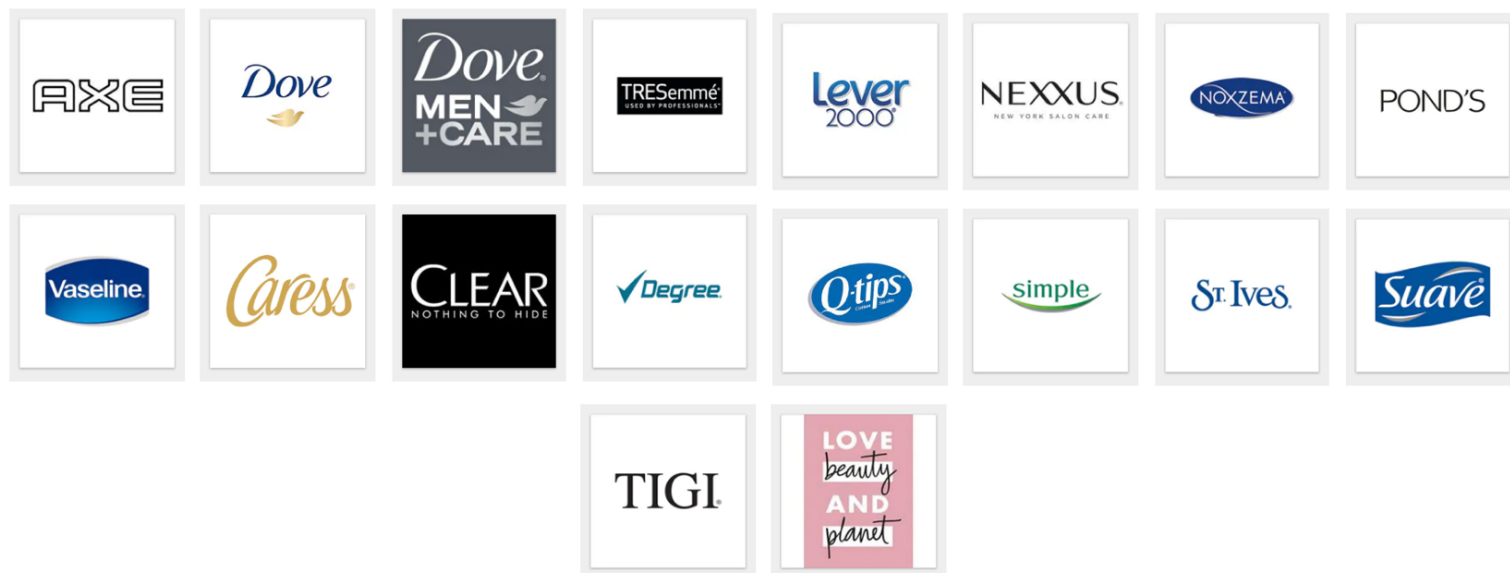
Beauty & Personal Care
Foods & Refreshment
Home Care



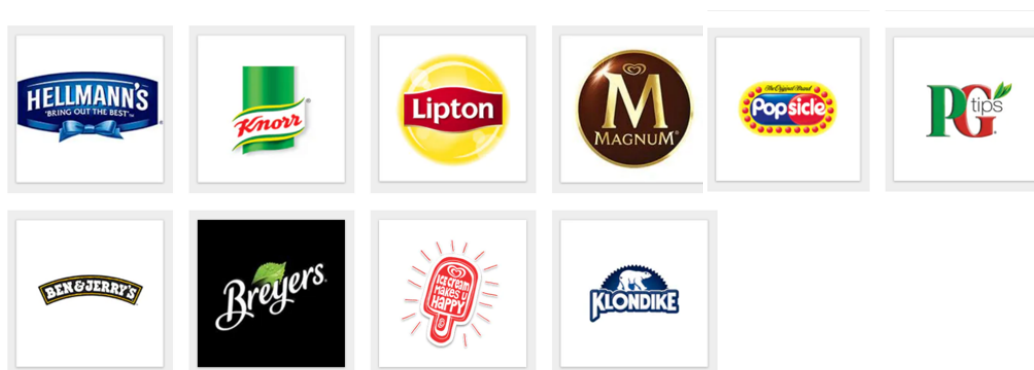
Unilever operates 3 primary product groupings, Beauty & Personal Care, Home Care, and Foods & Refreshment, with several sub-groups therein.

Beauty & Personal care saw 3.3% in underlying sales growth during the first half of 2021. As social occasions return and the impacts of COVID-19 wind down, it is likely that sales growth of skincare, oral, and hair care products will accelerate. As a subset of Beauty & Personal Care, Unilever operates Prestige & Functional Nutrition. Prestige, which includes medicated skincare, makeup, and beauty accessories, saw a large growth of 27% in the first half

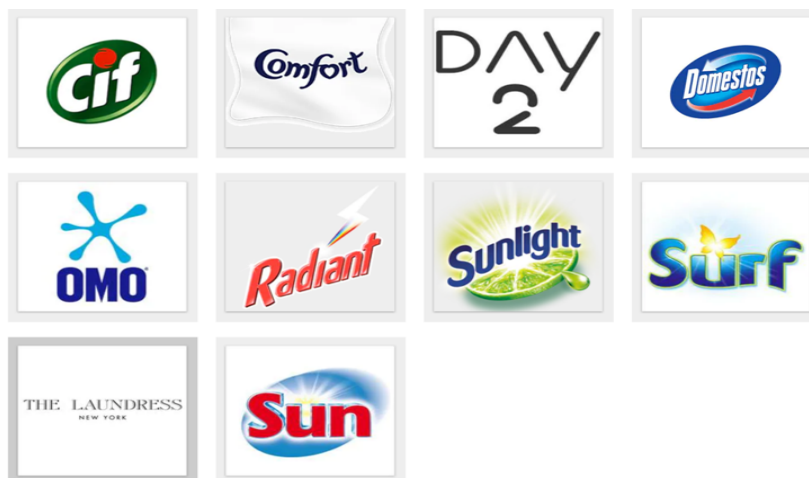
of 2021. Functional Nutrition, which includes multivitamins and food additives like protein powders, saw a growth of 18%.



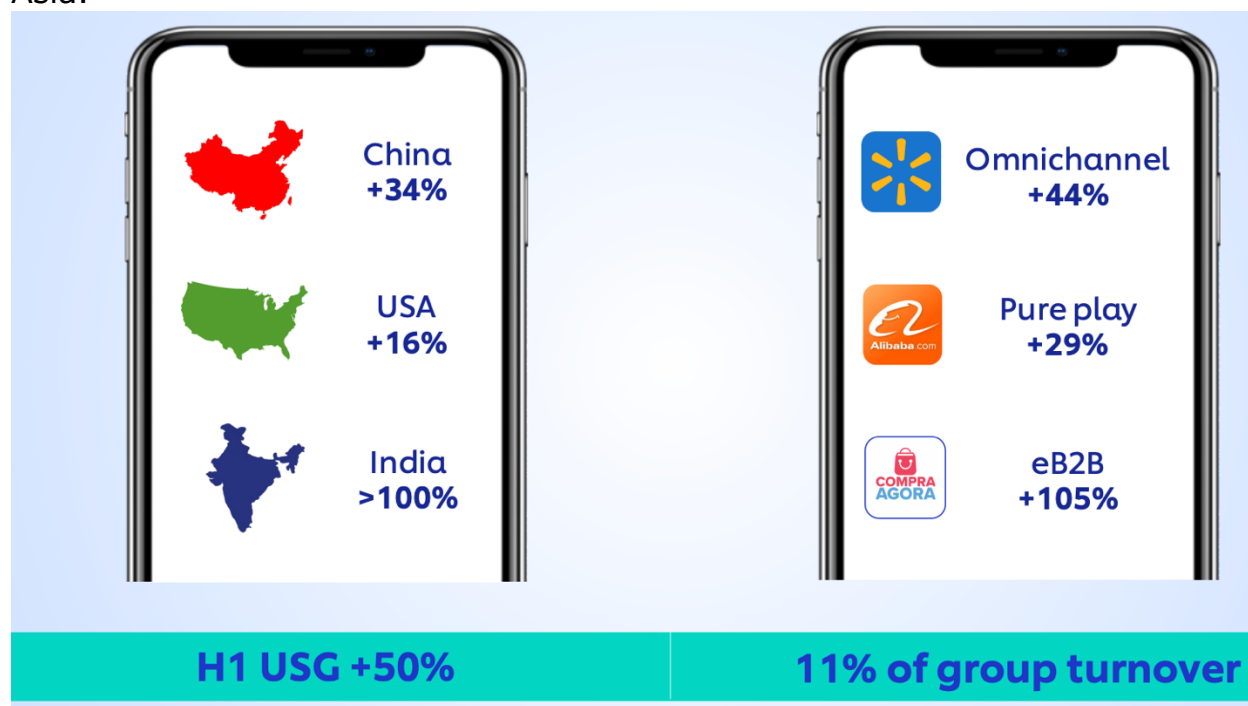
Foods & Refreshment saw sales growth of 8.1%. In-home brands saw 4% growth, primarily driven by "power brands" such as Knorr, Hellmann's, and Magnum. Foodservice growth hit a massive 26% growth, primarily driven by expansion in China. The 26% growth is primarily recovery as foodservice revenues are still a few percentage points below the pre-COVID-19 base.



Home & Hygiene is seeing deceleration from the surging demand at the beginning of the COVID-19 pandemic. However, the 6% growth in the laundry is largely driven by the Chinese market and experienced some acceleration in Q2.



Across all products, eCommerce growth was immense, at 50%, mostly in Asia.



Unilever 1H report

Acquisitions

Unilever has historically been aggressive with acquisitions, acquiring brands such as Ben and Jerry's, Dollar Shave Club, Bertolli, and P.F. Chang's.

In many of Unilever's sectors, one of the main expansions of products is acquiring smaller firms around the world. Acquisitions give Unilever footholds in attractive markets with established brands and businesses.

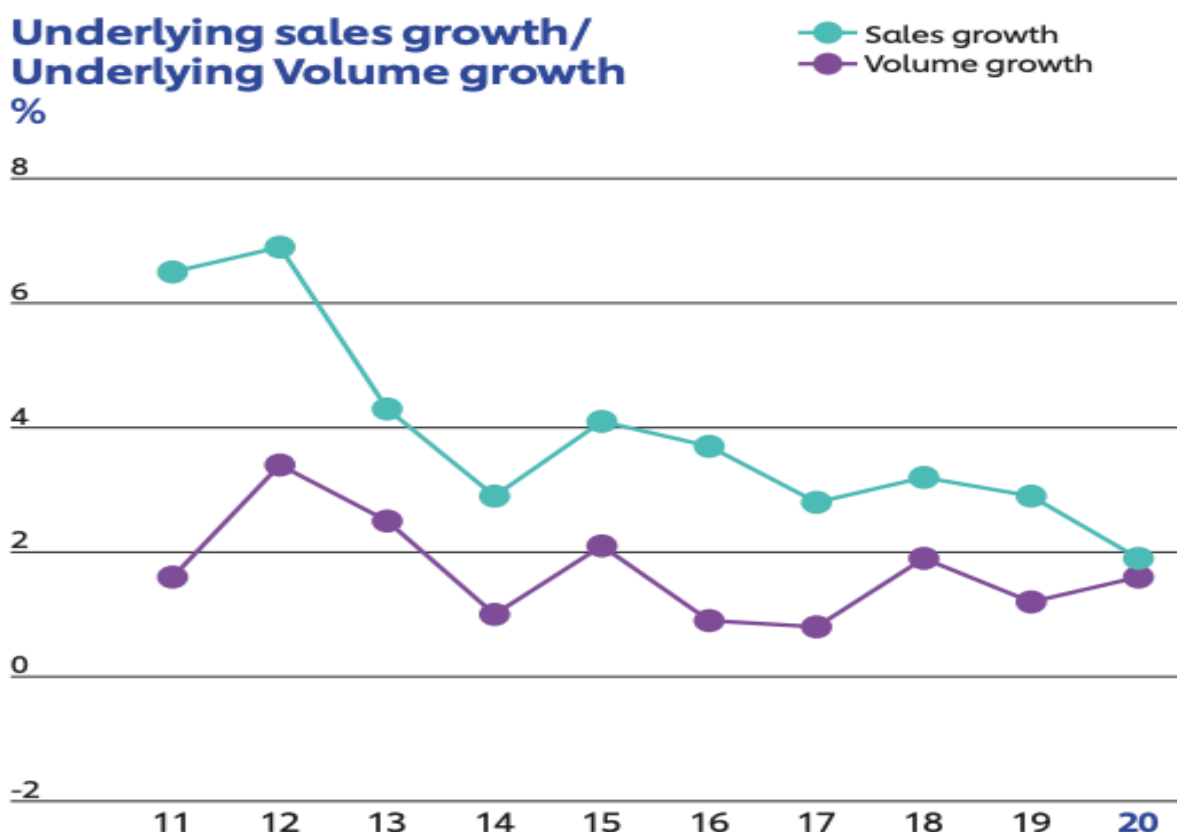
Overall, in 2020, Acquisition activities made up for the addition of 1.2% in revenue, despite the global pandemic.

For example, in 2020, Unilever acquired South Asian firm GSK's consumer healthcare and in order to add GSK's child nutrition and women's wellbeing products to their inventory and give access to those products across a traditionally under-served market for those categories.

Risk

During the first half of FY2021, Unilever began to warn of increasing costs of operation. Inflation is a significant risk for manufacturers of consumer products like Unilever as inflation drives costs upward while pricing adjustments often lag, creating margin compression. However, the Bank of England has stated that the inflation pressure should reduce in 2022 and are "unlikely to create longer-term inflation pressures." Since Unilever produces products that are eaten by customers or applied to customer's skin, recalls or other quality control failures could potentially damage consumer confidence in the brand associated with the product issue and damage sales.

Metrics



Source: Unilever Visualization Presentation

The first half of 2021 saw underlying sales growth of 5.4%, but cost pressures dropped margin by around 1%. Currently, Unilever issues a quarterly dividend of \$2.02 per share (3.52% yield) and has initiated a \$3.5 billion share buyback program.

Unilever had strong growth in Asia until the COVID-19 lockdowns reduce volume significantly. However, there are signs of recovery, with a 7.7% underlying sales increase in the first half of 2021.

Latin American sales growth was up 9.5% in the first half of 2021, with only Columbia having operations disrupted due to civil unrest. Brazil and Mexico both were able to maintain strong growth despite COVID-19 and localized inflationary pressures.

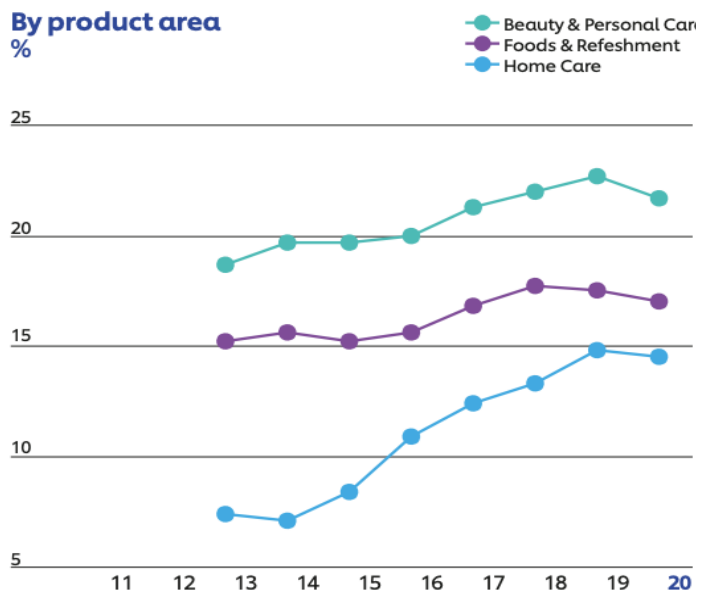
Europe and the United States are slightly lagging, with underlying sales growth being below 3% for both. This is largely due to tough comparison

year over year as demand surged during the initial stages of the pandemic.

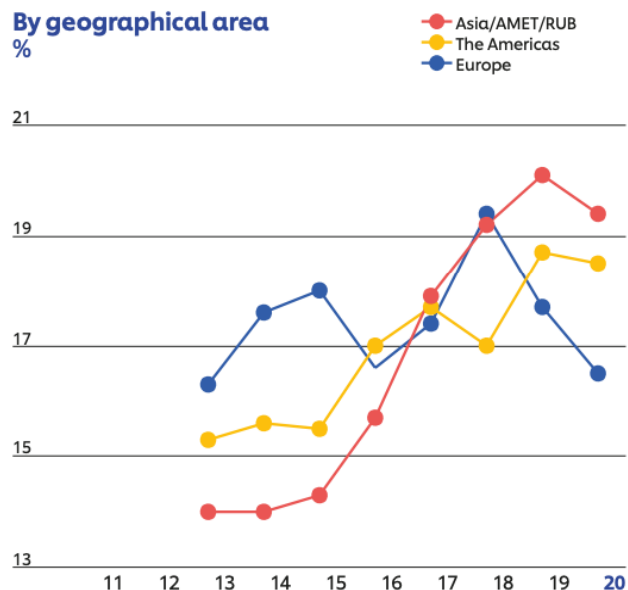
Profit margins vary widely by segment and geography. Beauty and Personal Care are the highest margins by product category. Asia/AMET/RUB have the highest margins by region and have shown a dramatic improvement in profitability over the past 5 years.

Underlying Operating margin

By product area
%



By geographical area
%



Source: Unilever Visualization Presentation

Estimated 2021	Unilever	PepsiCo	Coca-Cola	L'Oreal	Procter & Gamble
Price-to-Earnings	19.1	23.5	23.5	44.0	18.9
Price-to-Sales	2.5	2.4	2.7	6.8	4.4
Market Cap (Billions \$)	148.1	212.9	242.2	262.8	348.7
Dividend Yield %	3.5%	2.9%	3.1%	1.2%	2.5%

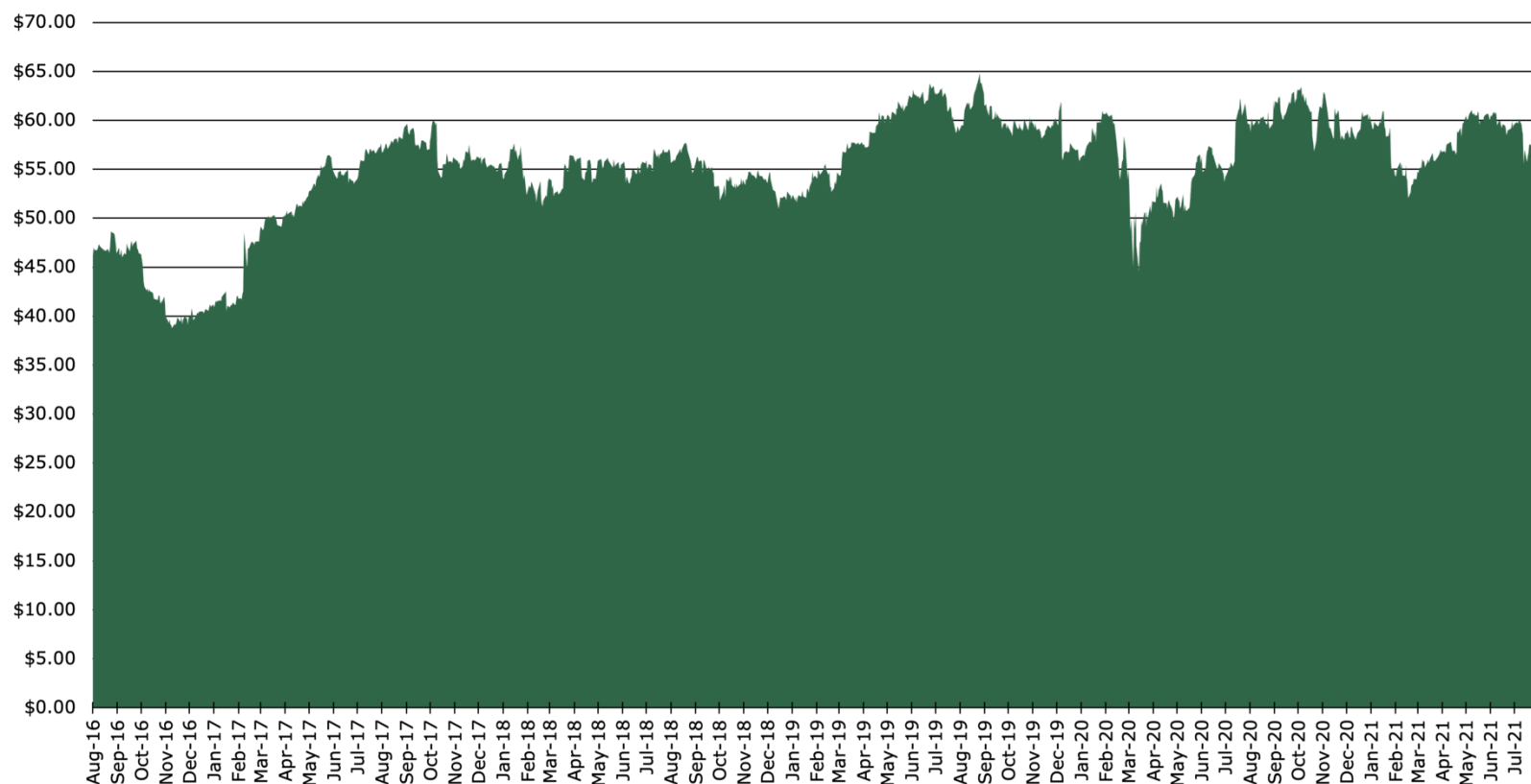


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Unilever	E2021	E2022	E2023
Price-to-Sales	2.5	2.4	2.1
Price-to-Earnings	19.1	18.3	17.4
EV/EBITDA	12.75	12.29	11.95

Unilever (UL)



Source: NASDAQ



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