



Rammstein

Green Bull

Big Chill

Nacho Libre

Cait's Nickname

Pending

Current Positions

- Ticker: UL (NYSE)
- Presented in 2021

Weight	Quantity	Unit Cost	Total Cost	Price	Market Value
2.74%	700	\$56	\$39,200	\$51.60	\$36,120

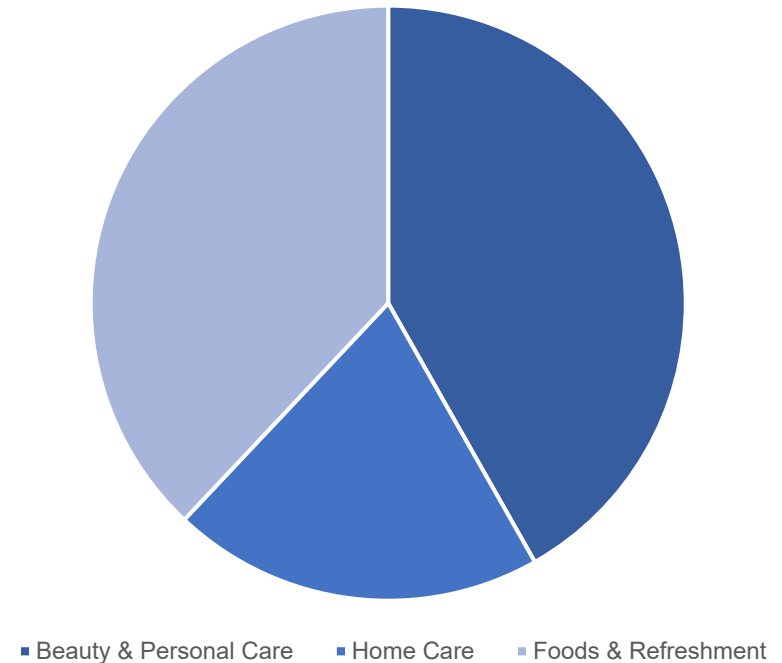
How Does UL Make Money?

Owens more than 400 brands in 190 countries

Recognizable companies:

- Vaseline
- Dove
- Lipton
- Hellmann's
- Ben & Jerry's

FY2021 Revenue (\$)



Recent News

- Acquisitions:
 - Paula's Choice-cosmetics
 - Onnit- wellness, and lifestyle
 - Agreed to sell tea business to CVC Capital Partners for \$5b on a cash-free, debt-free basis
- Organizational changes:
 - 5 category-focused business groups (add nutrition and ice cream)
- Completed \$3b in share buybacks

Management



Alan Jope
CEO since Jan 2019
With UL since 1984



Graeme Pitkethly
CFO since 2014
With UL since 1986



Nitin Paranjpe
COO since 2019
With UL since 1986



Sunny Jain
Pres. Beauty and Care
(2019)
UL since 1996

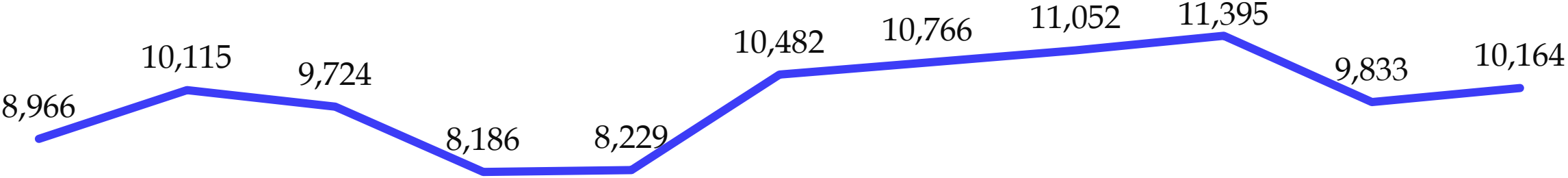
Revenue



CAGR:
3YR 0.72%
5YR 1.28%
10YR -1.27%

2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 TTM

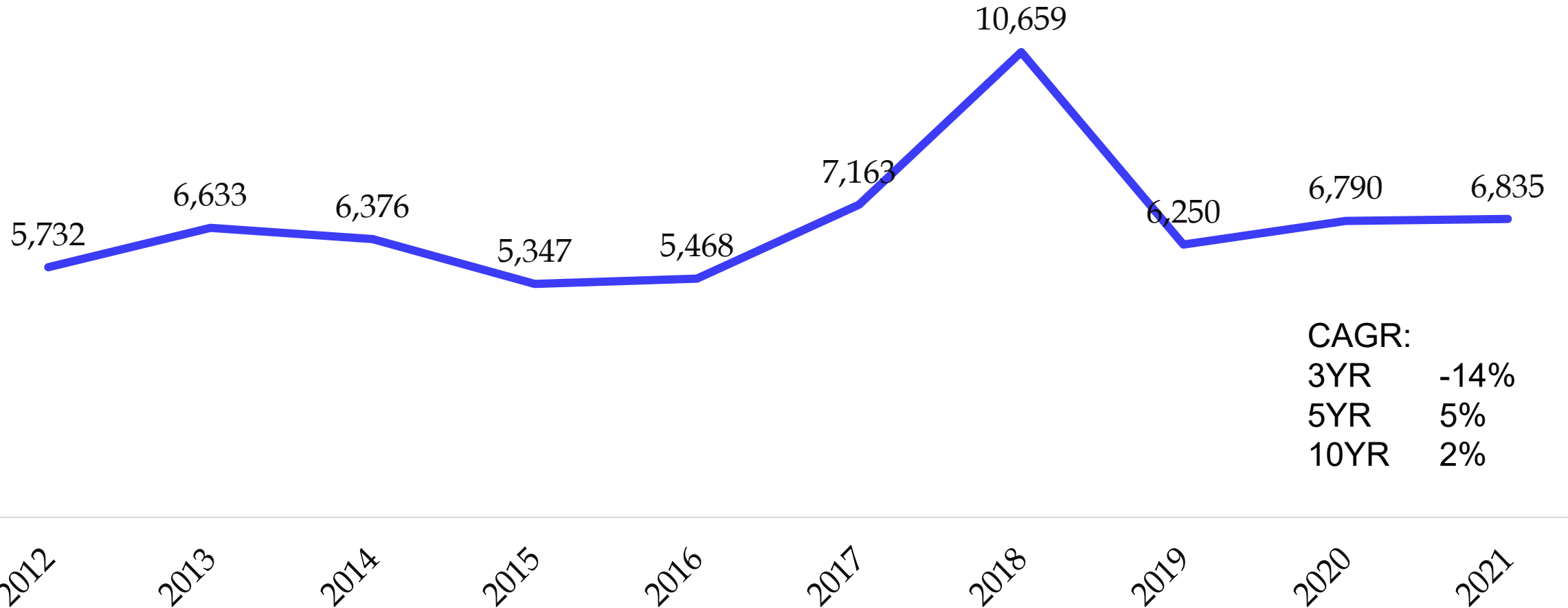
Operating Income



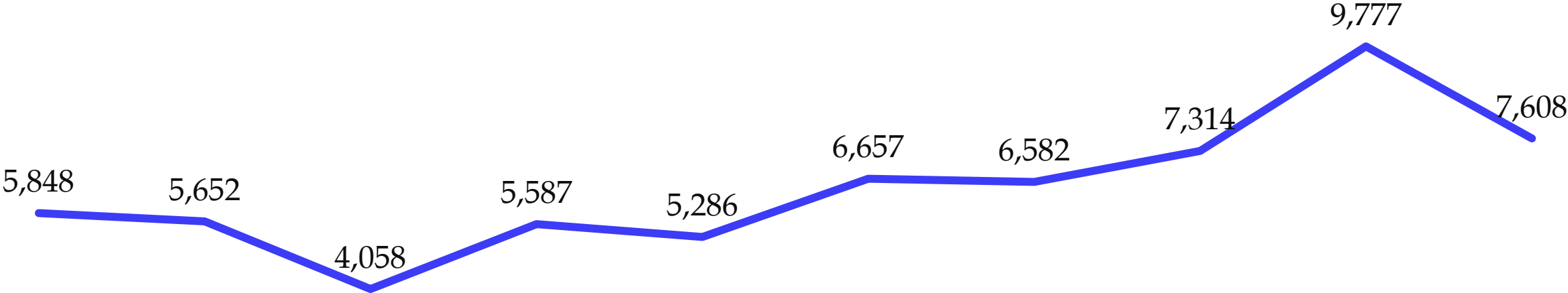
CAGR:
3YR -2.98%
5YR 3.63%
10YR 0.93%

2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 TTM

Net Income



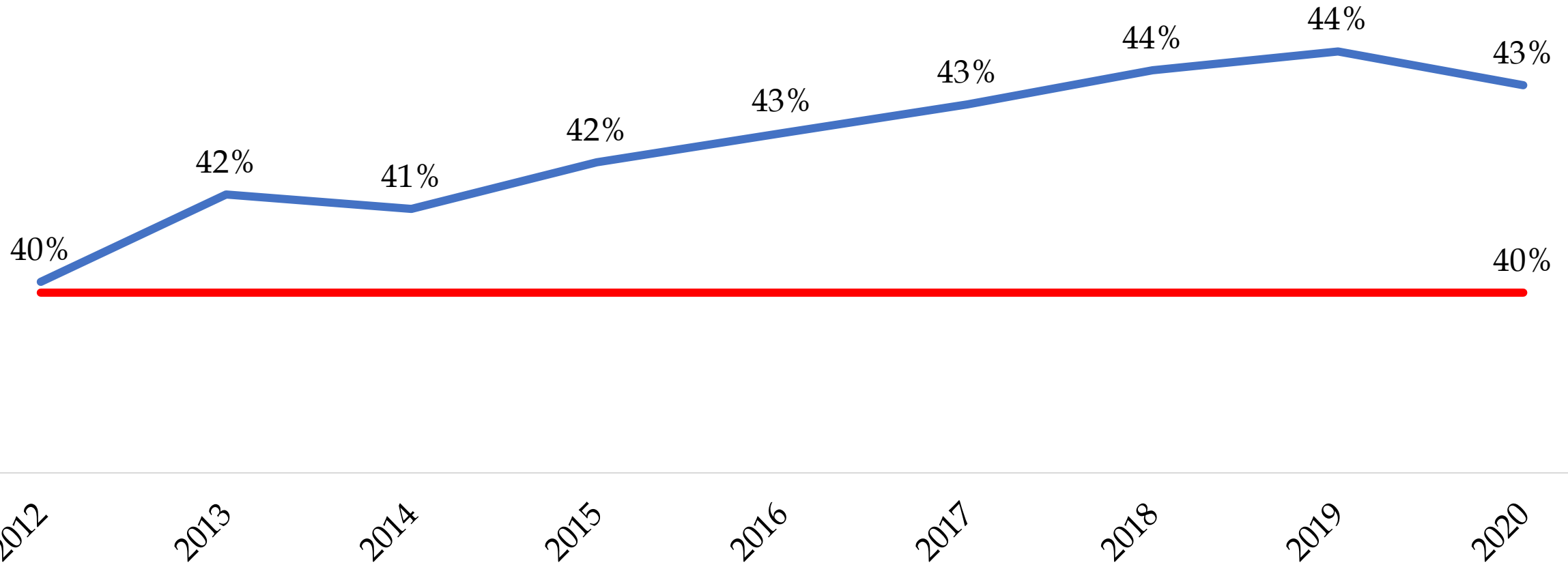
Free Cash Flow (FCF)



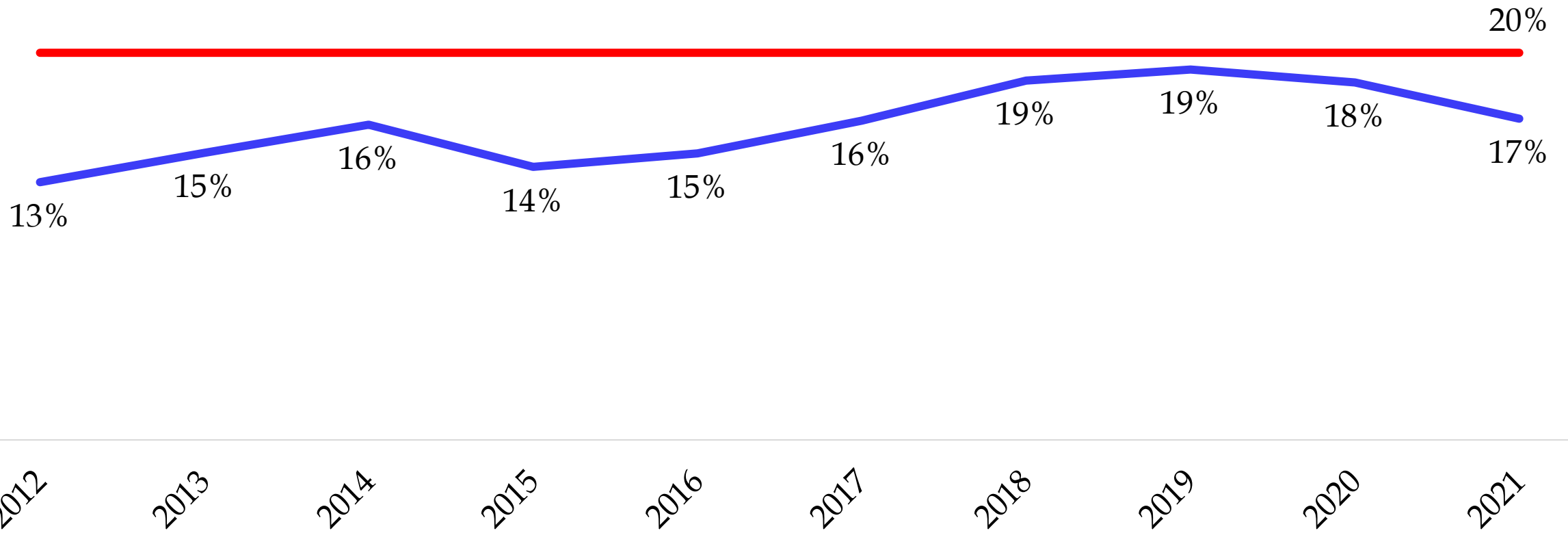
CAGR:
3YR 5%
5YR 8%
10YR 3%

2012 2013 2014 2015 2016 2017 2018 2019 2020 2021

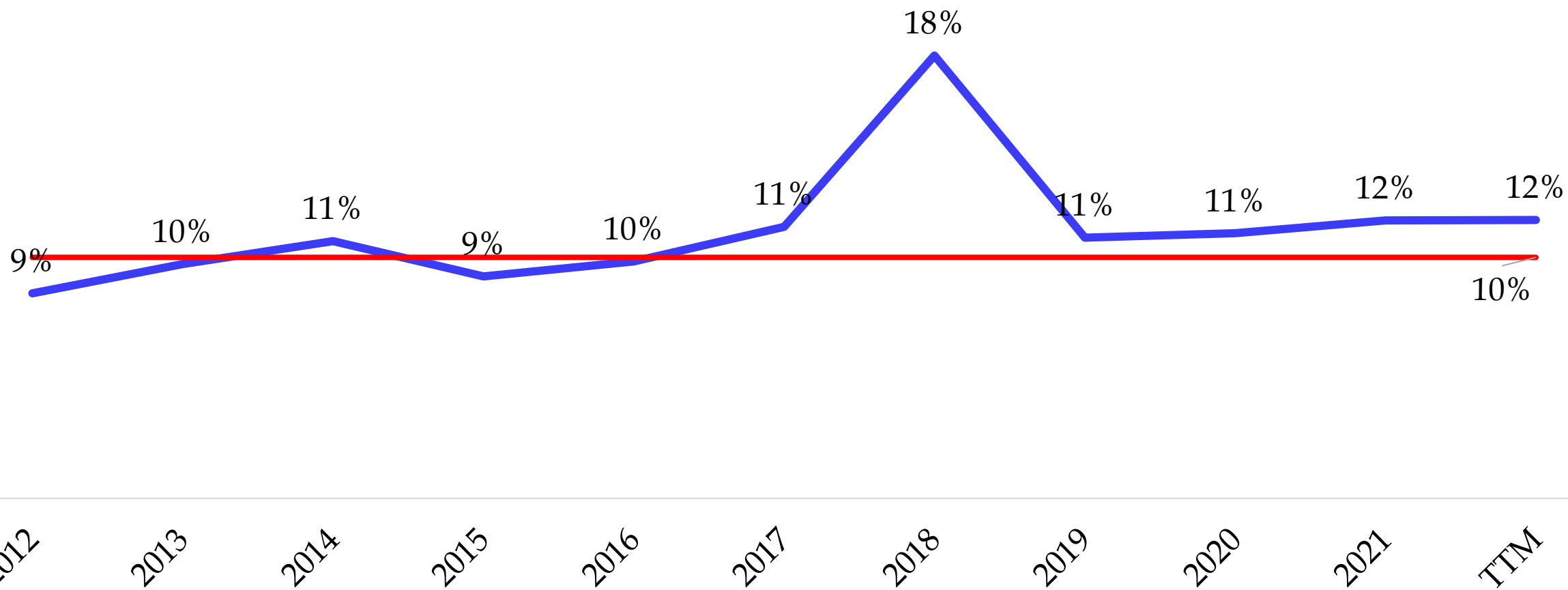
Gross Profit Margin (Above 40%)



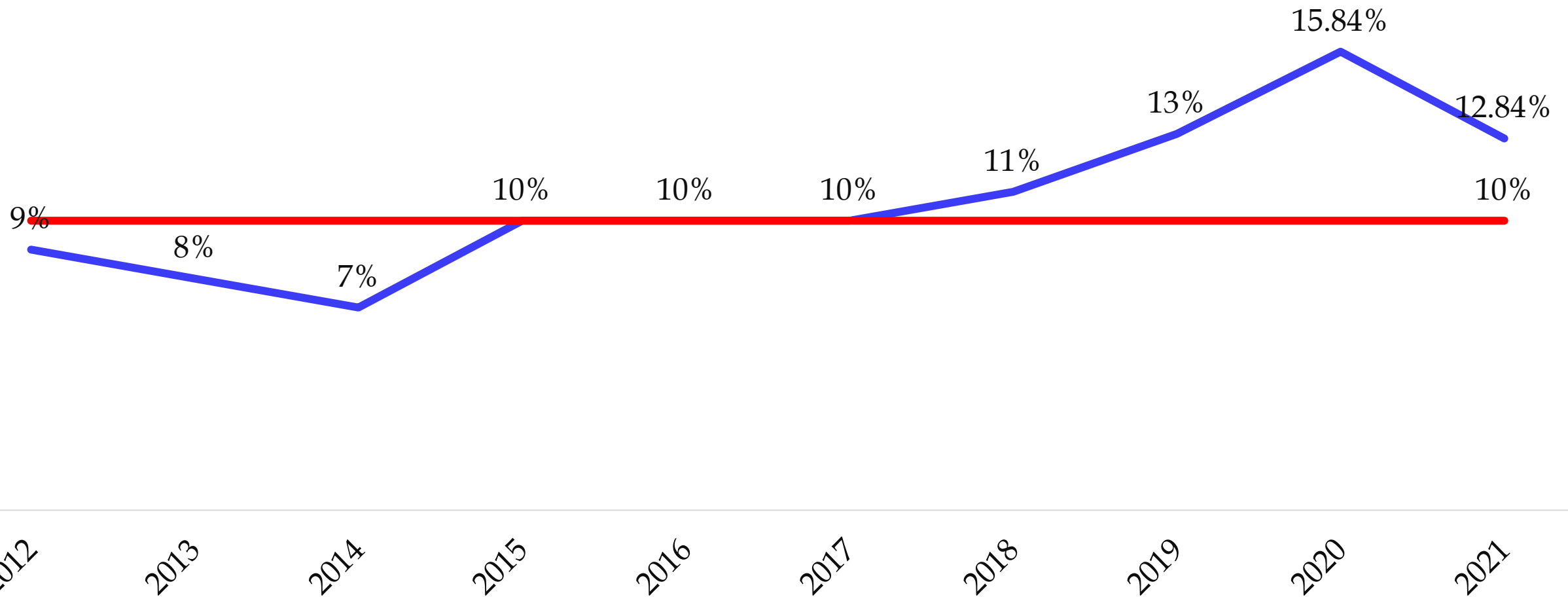
Operating Profit Margin (Above 20%)



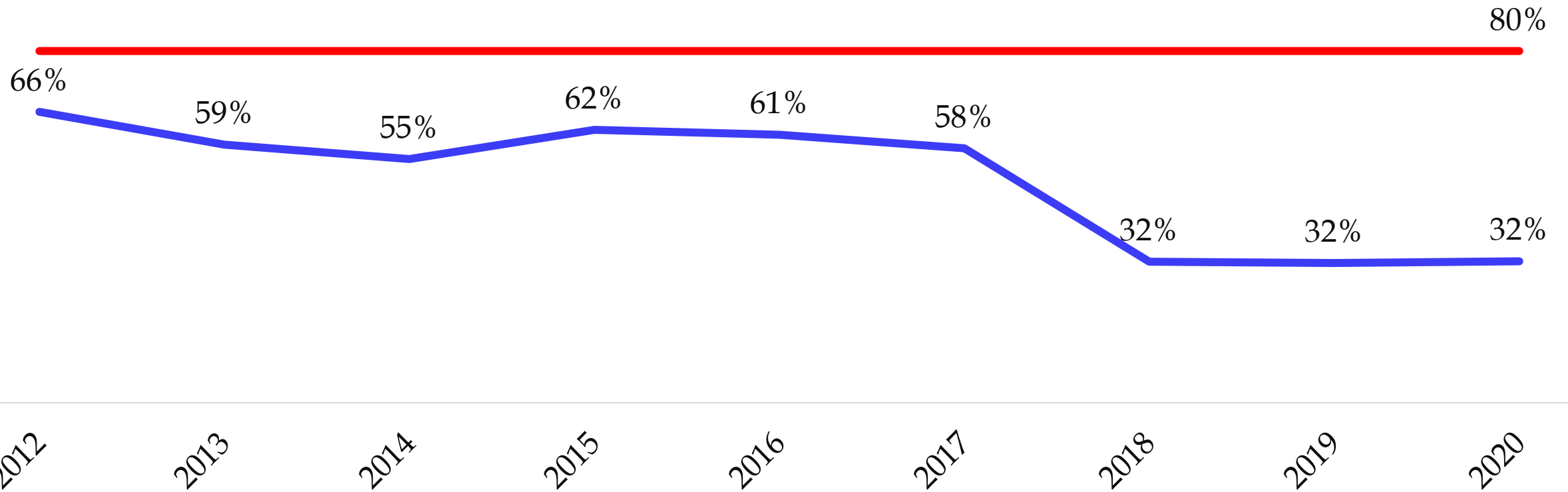
Net Profit Margin (Above 10%)



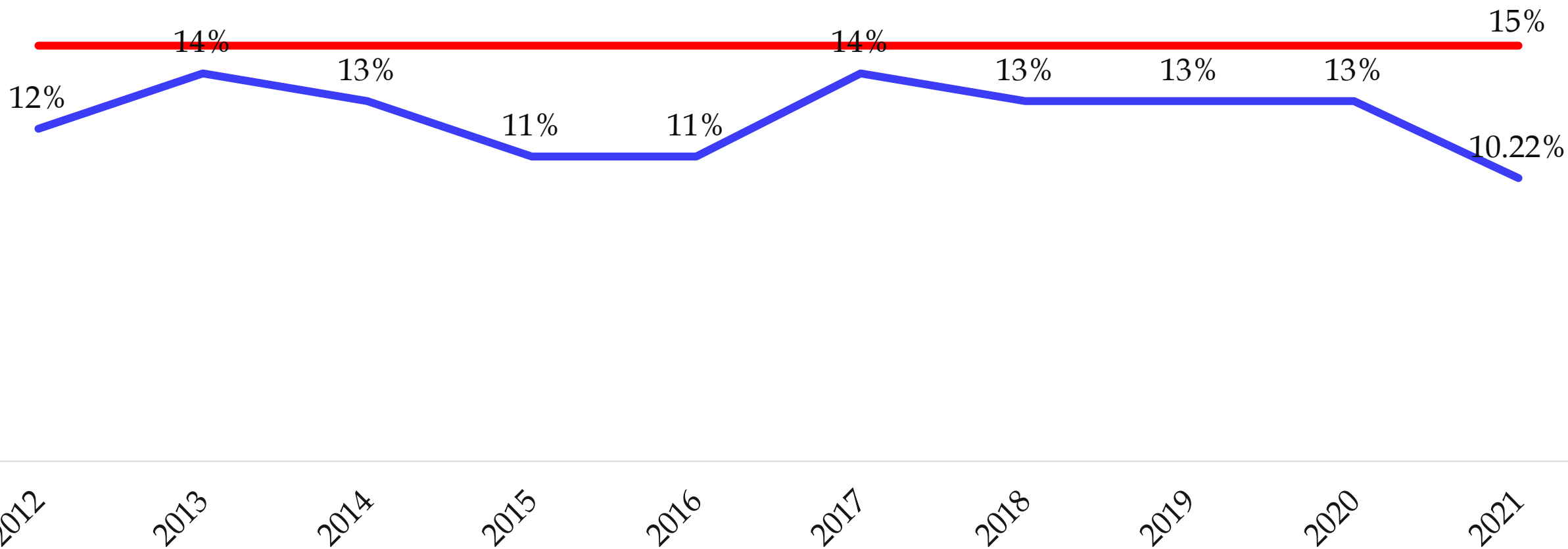
Free Cash Flow Margin (Above 10%)



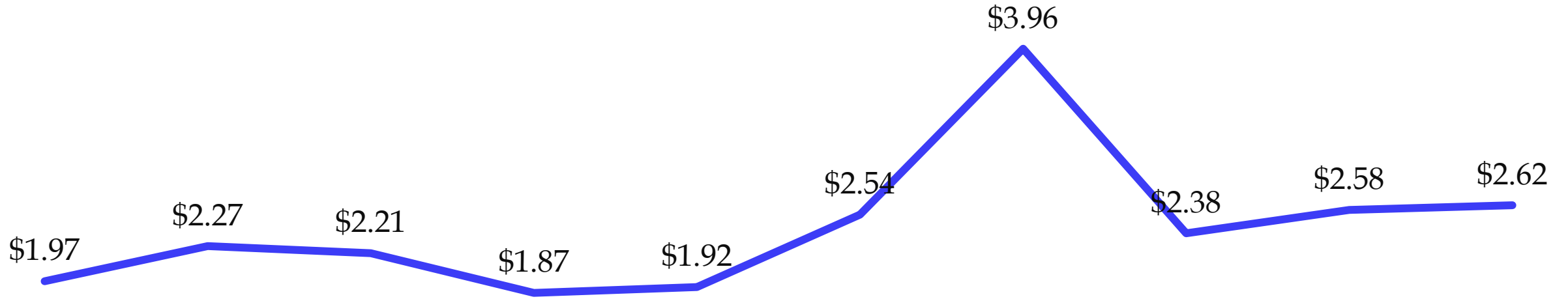
Selling, General, Admin, Exp to Gross Profit (Below 80%)



Return on Capital Employed (Above 15%)



EPS



CAGR:
3YR -13%
5YR 6%
10YR 3%

2012

2013

2014

2015

2016

2017

2018

2019

2020

2021



The Unikillers

Thesis

- Unilever is not a compounder
- Support decision to **Sell** the position
 - Good company, but not by BIC philosophy
 - Wrong Priorities & Poor Responses by Management
 - Competitive Pressures
 - Egregious Opportunity Cost

Is UL a Simple Company to Run?

- Unilever's Has Become Reliant On:
 - Increasing Operational Efficiency
 - Company Restructuring
 - Disposal of Brands in Low Margin Industries
 - Acquiring Brands in More Profitable Sectors
- No, this is *not a simple company to run*. The managers have to be financial engineers for the company to succeed.

Poor Capital Allocation

- GSK Acquisition – UL attempted to acquire GSK’s consumer healthcare for 50 billion pounds (\$68 billion) in cash.
- With roughly \$4 billion in cash on the balance sheet, in order to make the deal work, Unilever would likely have had to:
 - Sell multiple businesses that it currently owns
 - Take on a significant amount of debt.
 - Issue more shares

Obligation Ratio (Before GSK)

(+) ST Debt	\$8,195
(+) LT Debt	\$25,856
(+) Leases*7	\$13,044
(+) Pension Shortfall	\$0
(+) Preferred Stock	\$0
(-) Cash	\$3,859
<hr/>	
Net Income	\$6,835

Obligation Ratio = 6.33 Years



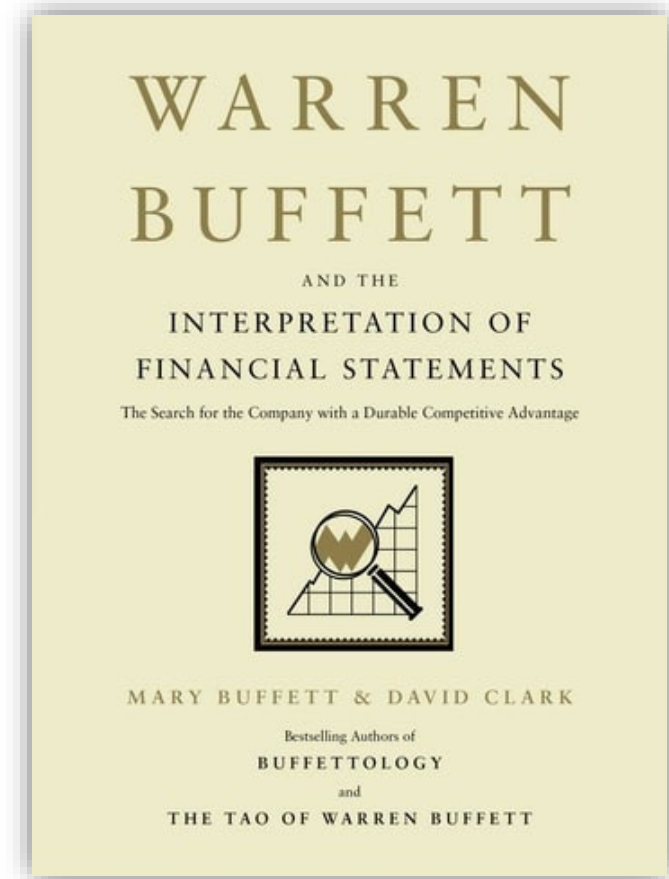
If GSK Deal Was Approved...

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(+) LT Debt	\$93,856
(+) Leases*7	\$13,044
(+) Pension Shortfall	\$0
(+) Preferred Stock	\$0
(-) Cash	\$3,859
Net Income	\$6,835

Obligation Ratio = 16.27 Years

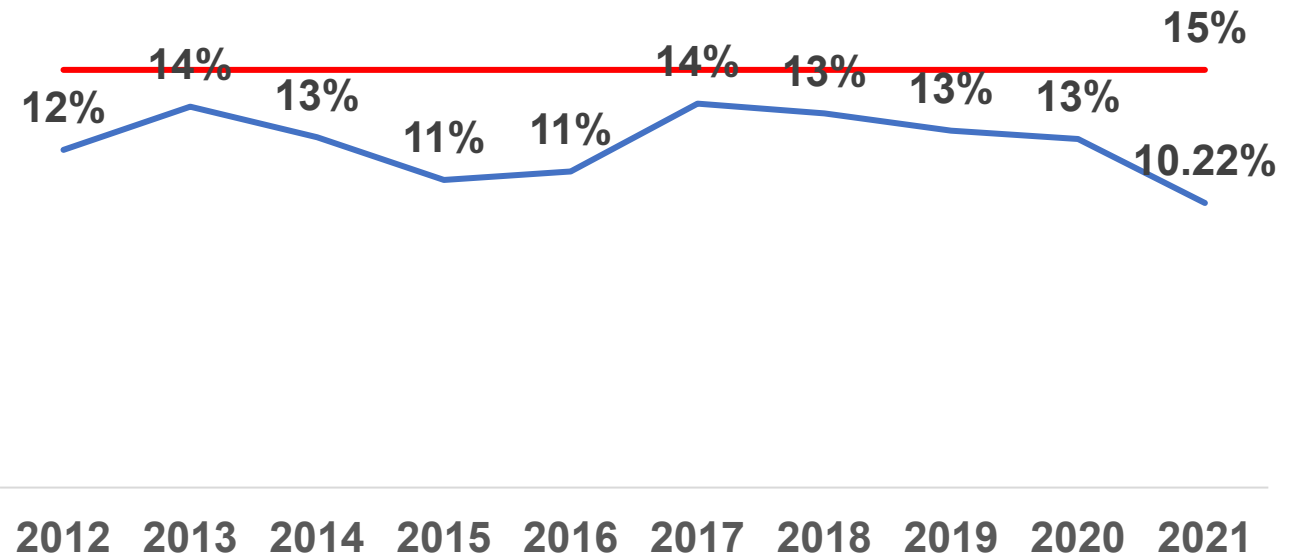
What's the Point?

- Unilever purchased to increase cashflow
 - Goal is to **MAX** rate of return, not provide fixed income.



Unilever's Return on Invested Capital

- Unilever is capital-intensive
- Fails Return on Invested Capital (ROIC) of 15%



Buffettology 101

*“The **best business** is one that can employ large amounts of **incremental capital** at very **high rates of returns** for an **extended period of time**.”*



Return on *Incremental* Invested Capital

*How much money can Unilever generate moving forward
on future capital investments?*

- **-26%** Reinvestment Rate (RI)
 - Giving away \$1.26 for every \$1 earned
- **-9%** Return on Incremental Invested Capital (ROIIC)
- ROIIC * RI = **2%**

Translation?

Return on *Incremental* Invested Capital

- **-26%** Reinvestment Rate (RI)
- **-9%** Return on Incremental Invested Capital (ROIIC)
- $\text{ROIIC} * \text{RI} = \mathbf{2\%}$

Translation?

If Unilever **retains -26%** of capital,
Reinvests that capital at **-9%**,
Expect the company to **grow** at **2%**

Poor Response to Weak Performance

- Two Primary Responses:
 - ESG Initiatives
 - Gin Rummy Tactics

Wrong Priorities – ESG

- Dove
 - Make a positive experience of beauty accessible to all women
- Ben & Jerry's Ice Cream
 - Advancing human rights, supporting social justice for marginalized communities and protecting the Earth's natural systems
- Hellmann's Mayonnaise
 - Help reduce the vast amount of food wasted every year

Changing Logos



(This is not real)

Wrong Priorities – *Gin Rummy Tactics*

- Gin Rummy M&A
 - Doesn't work? Burn it.
- Why not Focus on improving Operations?
- P&G Beauty Trial
 - (Didn't go as planned)



Beauty and Personal Care

- 5-years beauty and personal care accounted for a higher portion of revenues
- Higher margin business
- Unilever is switching their priority to health and beauty

	% of sales	% of sales	
Segment	2016	2021	Operating Margin
Beauty & Personal Care	38%	41%	20.40%
Food & Refreshment	42%	38%	14.70%
Home Care	18%	20%	12.20%

Private Labels

- Private labels account for nearly \$109 B in revenue annually
- Limited shelf space

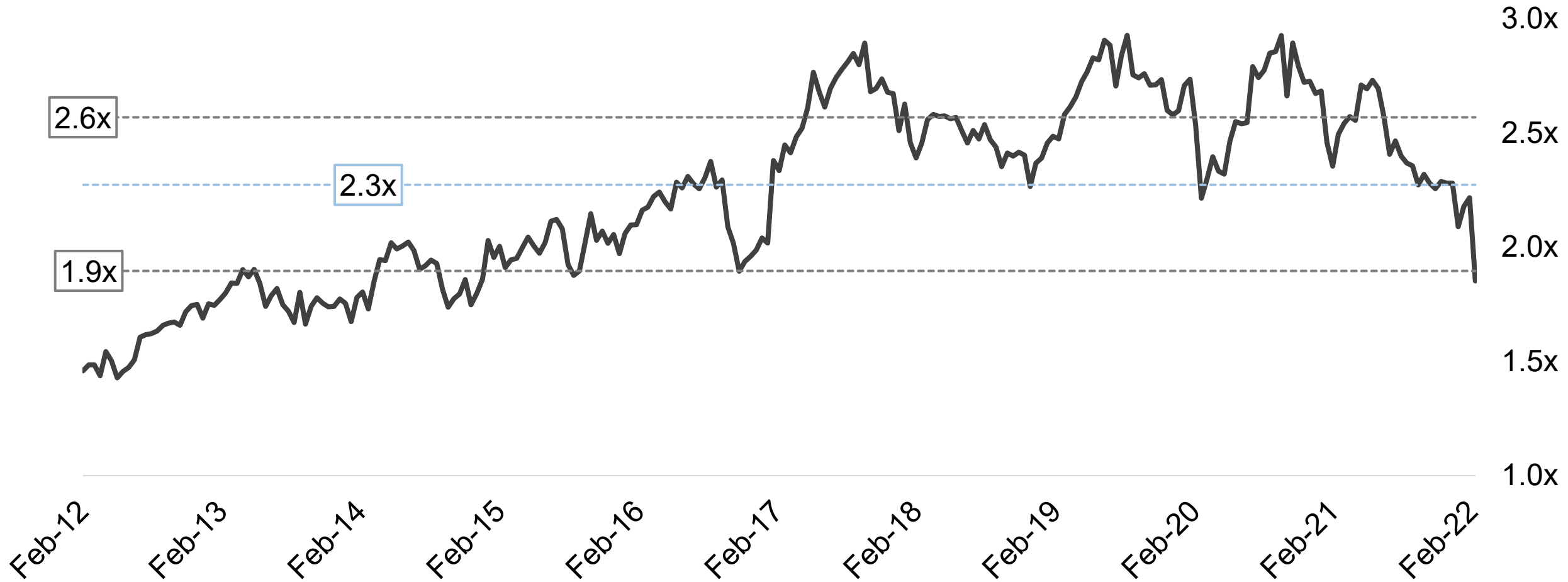


Minimal Switching Costs

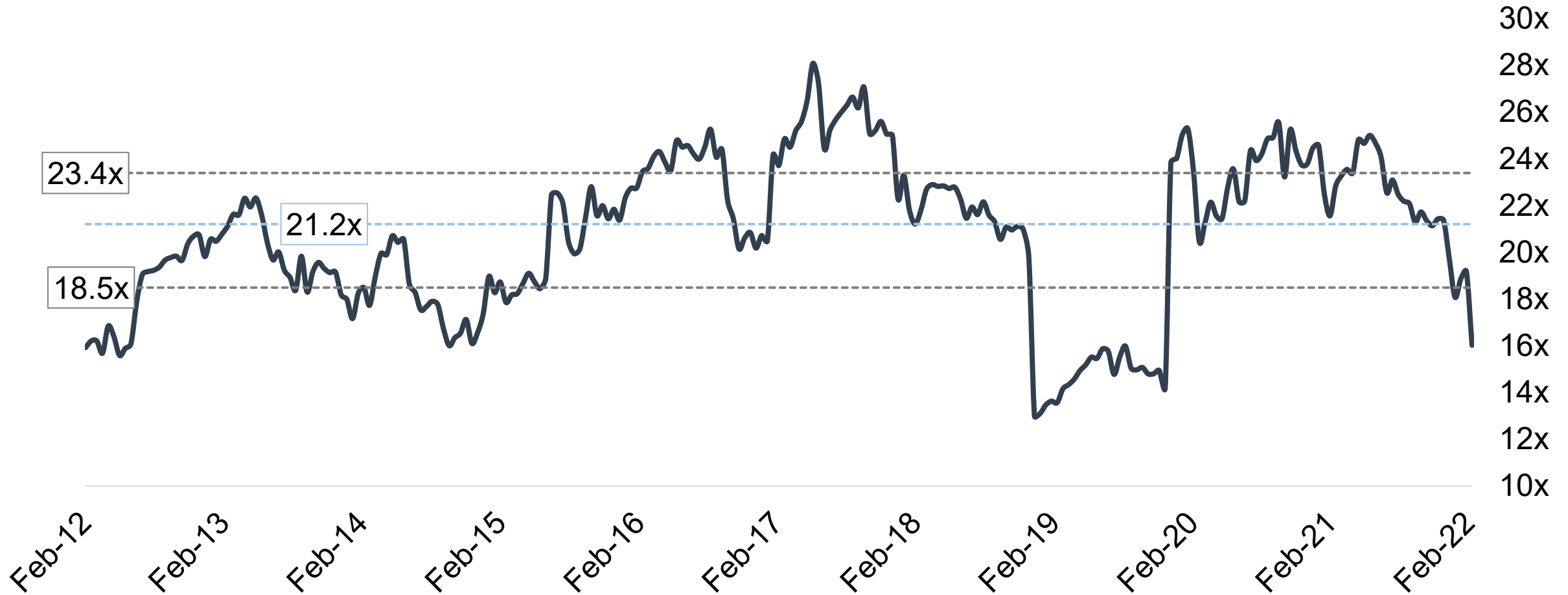
- Why isn't Unilever out pricing its competitors?
- Customers can buy whatever they want, whenever they want
- T.I.A



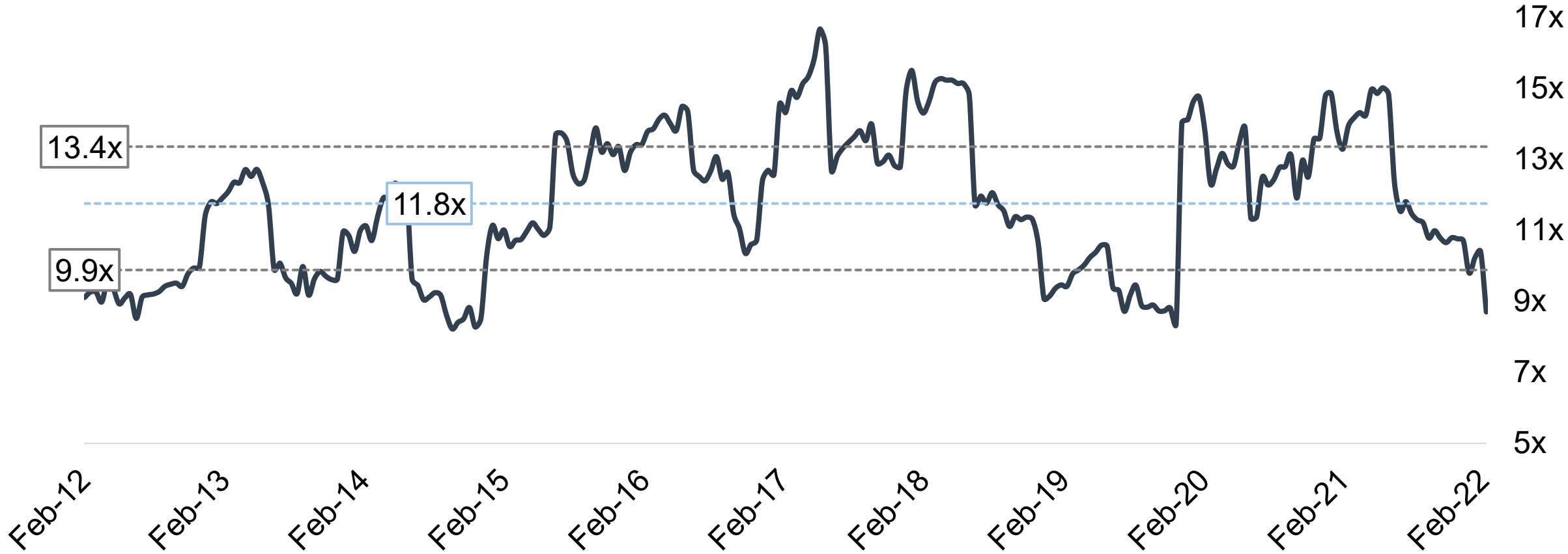
Price to Sales



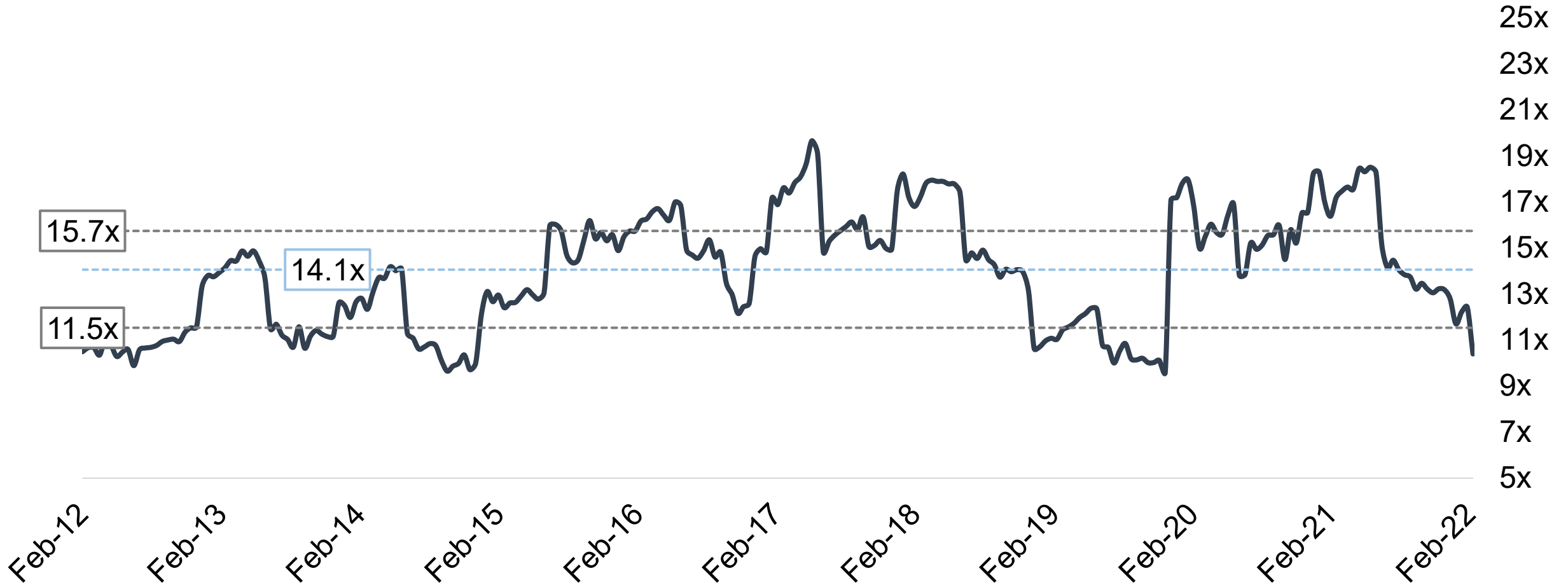
Price to Earnings



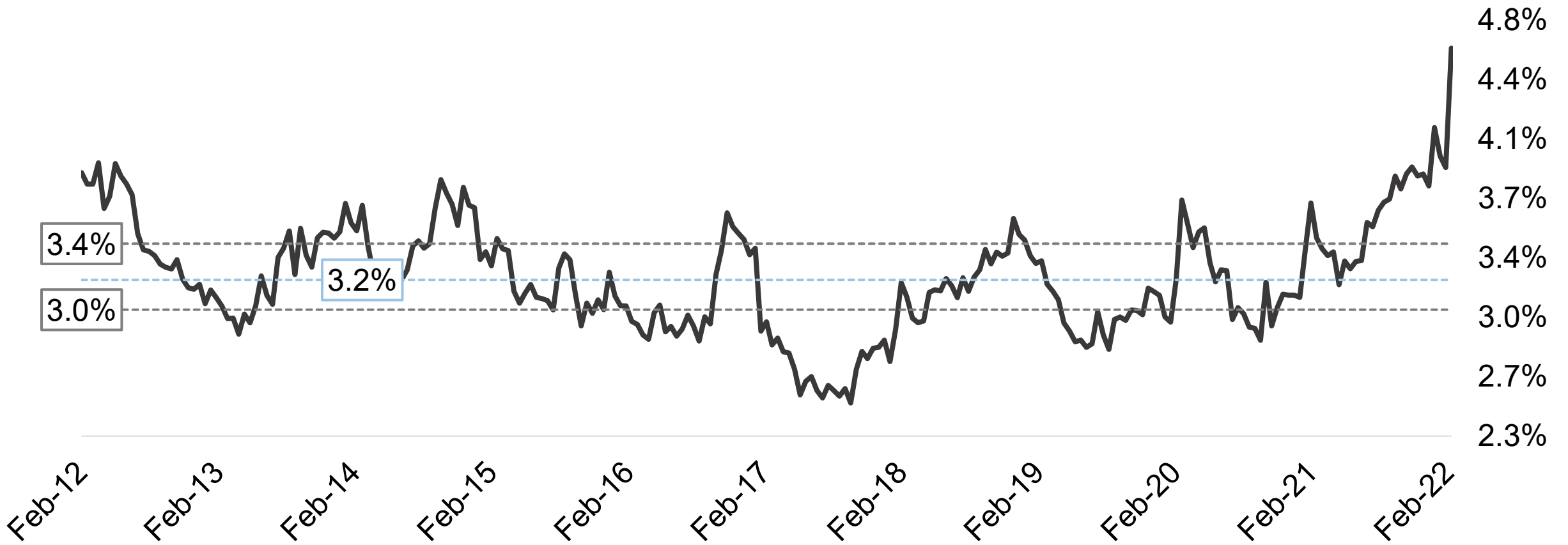
EV to EBITDA



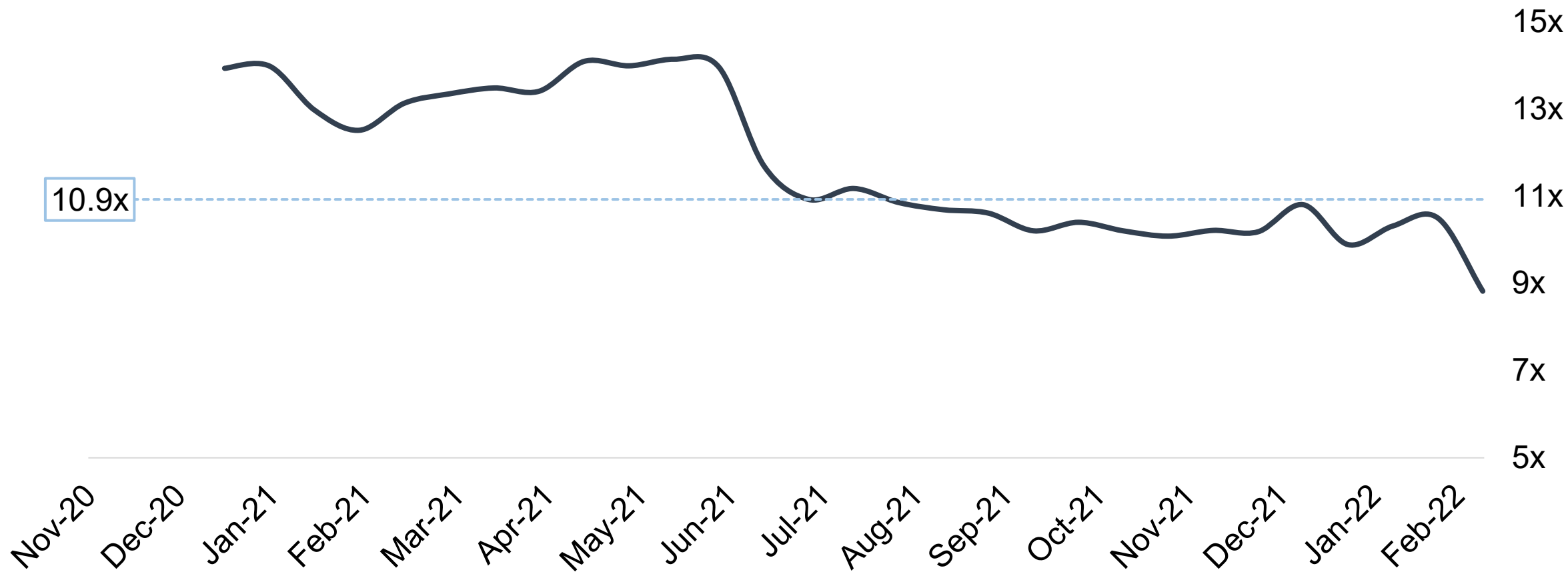
EV to EBIT



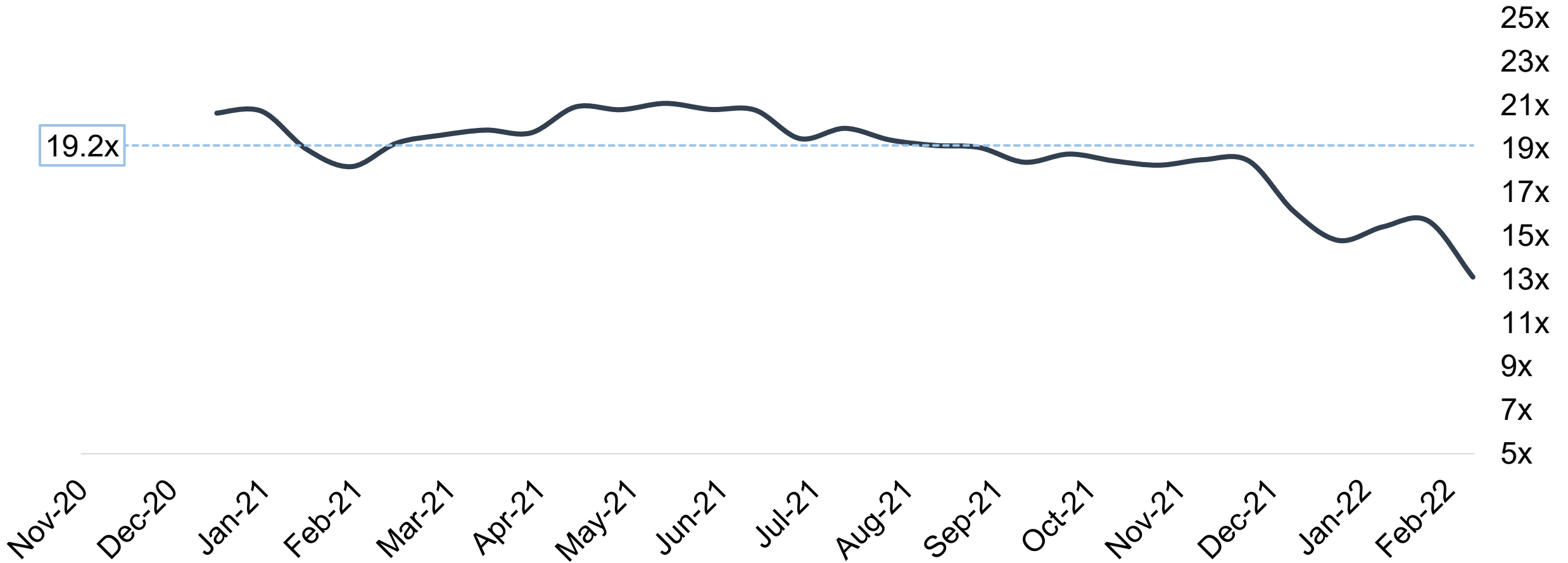
Dividend Yield



Forward EV to EBIT



Forward Price to Earnings



2021 Presentation

	Bear	Base	Bull
FCF per share	\$3.72	\$3.72	\$3.72
Growth Rates	4%	6%	9%

Read the Accounts

	2014	2015	2016	2017	2018	2019	2020	2021
Non-GAAP EPS								
Diluted EPS	\$2.21	\$1.87	\$1.92	\$2.54	\$3.96	\$2.38	\$2.58	\$2.62
FCFPS	\$1.41	\$1.96	\$1.85	\$2.37	\$2.44	\$2.79	\$3.72	\$2.92

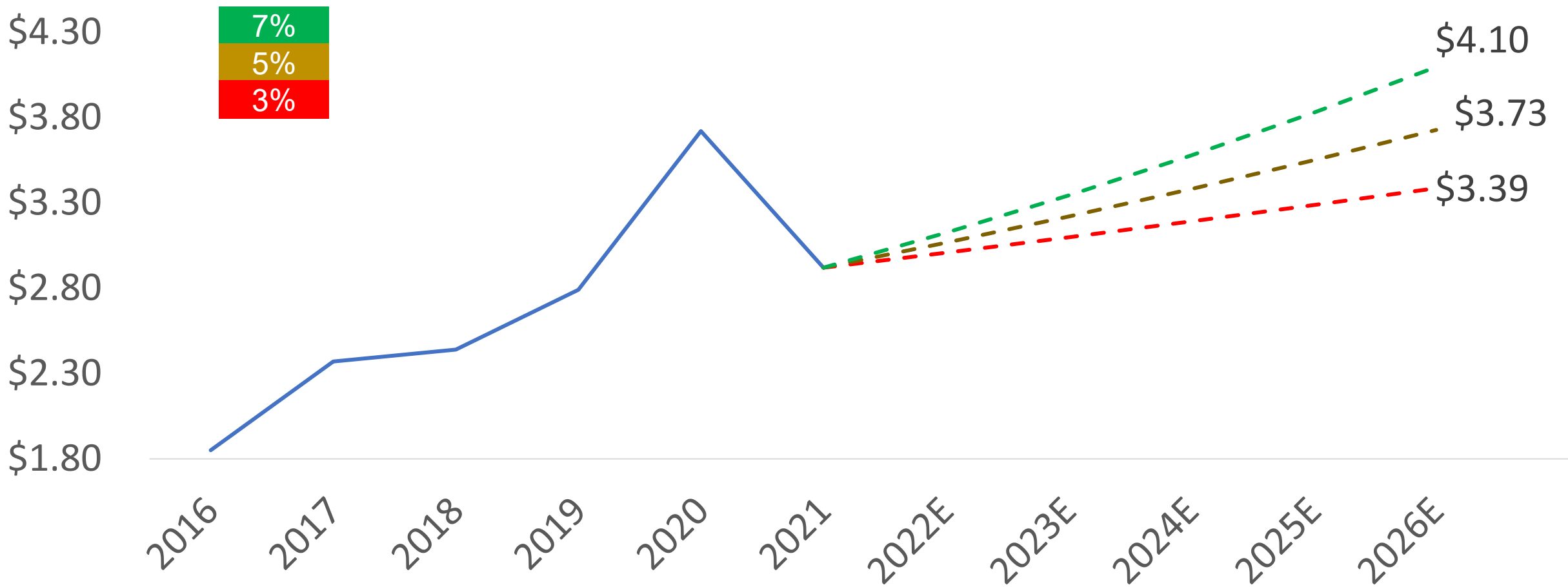
Expected Growth

	Years	Growth Rate
EPS Value Line	5-years	7.7%
EPS Y-Charts	Long-Term	3.4%-6%
Revenue Value Line	5-years	3.2%
Revenue Morningstar	5-years	3.4%
Revenue Management	1-year	4.5%-6.5%

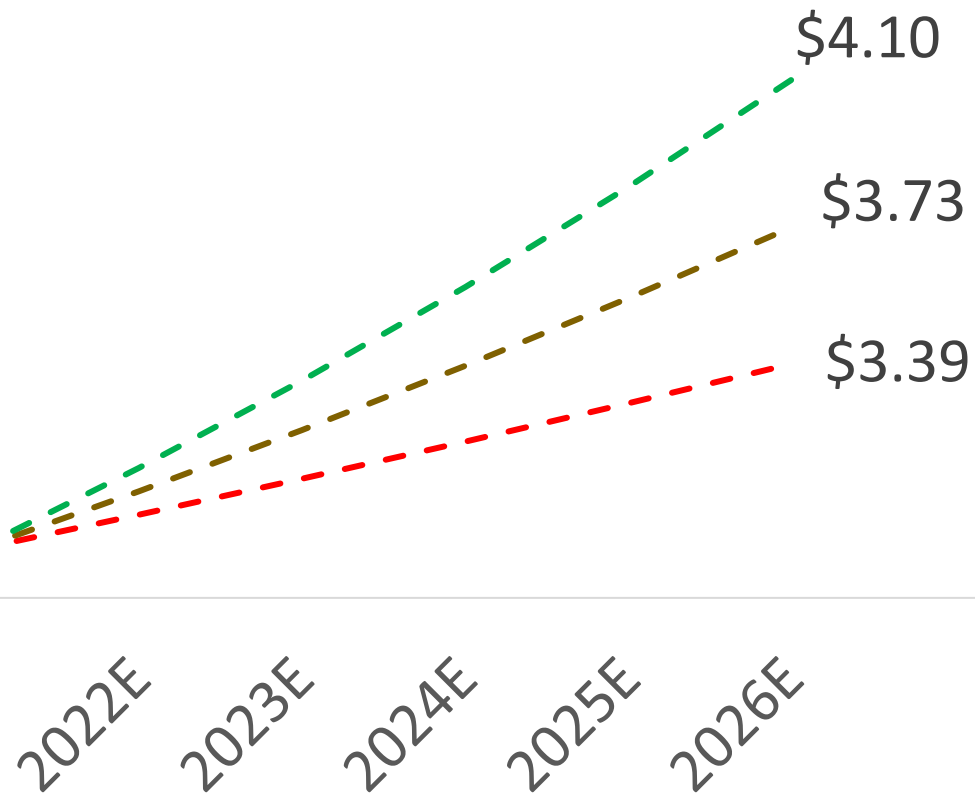
**Value Line 2021-2026 CAGR*



FCF Valuation Model



FCF Valuation Model



P/FCF	Average Future Price	Expected Annualized ROR
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x	12x	=	\$73.72	6.9%
	18x		\$67.08	8.9%
	24x		\$60.93	11%

Current Price: \$43.7

Sensitivity Analysis With Dividend

Total RoR Sensitivity					
P / FCF	\$2.92	Est. FCF growth rate			
		3%	5%	7%	
		12.0x	(1.5)%	0.5%	2.4%
		18.0x	6.9%	8.9%	11.0%
24.0x	13.2%	15.4%	17.6%		

Opportunity Cost

- Although UL appears cheap
- Thesis has changed
- Slower growth
- Management questionable decisions
- Opportunity cost



Opportunity Cost

- 10-years
- Left on an island
- What would you own?
- Widest moat
- Highest quality
- Strong expected ROR



Opportunity Cost





PEG	Expected ROR	Gross Margin	FCF Margin	ROCE	ROIIC	Value of Compounding Rate	10-year CAGR of Stock
3.6	8.9%	43%	12.8%	18.7%	-9%	2%	2%
2.15	10%	73.5%	42.9%	42.5%	126%	16%	22%
2.62	15.7%	88.2%	43.6%	28.8%	179%	19%	29%
1.8	16.1%	56.9%	26%	32.3%	37%	24%	25%







S&P Global







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Conclusion

- Good company
- Not a top 10 idea
- Opportunity cost
- Not maximizing rate of return
- Recommendation
- 700 shares
- Write 7 calls
- Be patient, collect dividends & premiums



**Isn't a compounder,
It's a bond where we
inherit all the risk.**

Appendix

Read the Accounts

	2019	2020	2021
Net Income	\$6,696	\$7,388	\$7,481
Depreciation and Amortization	\$2,202	\$2,455	\$1,992
Change in Receivables	-\$494	\$1,369	-
Change in Inventory	\$348	-\$714	-
Change in Other Working Capital	\$137	\$173	-
Change in Working Capital	-\$10	\$827	-\$53
Deferred Tax	\$2,514	\$2,339	\$2,186
Stock-Based Compensation	\$168	\$131	\$182
Cash Flow from Others	-\$2,560	-\$2,122	-\$2,781
<u>Cash Flow from Operations</u>	<u>\$9,010</u>	<u>\$11,019</u>	<u>\$9,008</u>
Adjusted		\$9,650	

ROIIC

Return on Incremental Invested Capital				
	Ticker	UL		
	<i>\$ in millions</i>	2012-12-31	2021-12-31	Δ
Net Income		\$5,616	\$7,157	\$1,541
Equity		\$20,356	\$19,369	
Debt & Capital Lease Obligations		\$12,994	\$0	
Less Goodwill		\$19,334	\$23,018	
Total Capital Invested		\$14,016	-\$3,649	-\$17,665
Cumulative 10 Year Earnings		\$67,854		
Incremental Capital Invested		-\$17,665		
Cumulative 10 Year Dividends		\$43,515		
Cumulative 10 Year Buybacks		\$18,235		
Reinvestment Rate		-26%		
Return on Incremental Capital Investments		-9%		
Value Compounding Rate of the Company		2%		
10 Year CAGR of stock		2%		

