Assumptions Index – Discounted Cash Flow Valuation

Operating Assumptions

Revenue Growth (2.5%)
A conservative growth rate is assumed despite historical revenue growth of ~5.2%. This reflects Unilever's maturity, market saturation in developed economies, and limited scope for structural acceleration.

Operating Margin Stability (Average EBIT Margin: 17%)
EBIT margins are assumed to remain broadly in line with historical averages, reflecting pricing power offset by competitive and input cost pressures.

Effective Tax Rate (25%)
A normalised tax rate is applied to EBIT to estimate NOPAT, representing Unilever's long-term blended tax exposure across jurisdictions.

Cash Flow Assumptions

Free Cash Flow to Firm (FCFF)
FCFF is used as the primary valuation cash flow, as it represents cash available to both equity and debt holders and is independent of capital structure.

FCFF Growth (0.0671)
FCFF growth is driven by operating assumptions (revenue growth and margins) rather than an independent assumption, ensuring internal consistency across financial statements.

Capital Structure & Discount Rate Assumptions

Risk-Free Rate (4.0%)
Based on long-term UK government bond yields, consistent with a London-listed company and GBP-denominated valuation.

Equity Risk Premium (5.5%)
Reflects long-term market expectations for developed equity markets such as the UK.

Beta (0.70)
Assumes lower systematic risk due to Unilever's defensive consumer staples business and stable cash flows.

Weighted Average Cost of Capital (WACC: 0.08)
WACC is used to discount FCFF, representing the blended required return of all capital providers.

Terminal Value Assumptions

Terminal Growth Rate (0.02)
Assumed to be conservative and below WACC, broadly aligned with long-term nominal economic growth in developed markets.

Perpetuity Growth Model
Terminal value is calculated using the Gordon Growth Model, reflecting Unilever's ability to generate stable cash flows in perpetuity.

Valuation Framework

Enterprise Value Focus
Enterprise value is derived by discounting forecast FCFF and terminal value, avoiding distortions from capital structure changes.