

INVESTMENT MEMO – UNILEVER

Business Overview

Unilever PLC is one of the world's largest fast-moving consumer goods (FMCG) companies, operating across food, personal care, and home care products with a globally diversified revenue base. Its portfolio includes well-established, everyday brands with strong pricing power and recurring demand.

The company benefits from defensive characteristics: stable cash flows, global scale, and resilience across economic cycles. These qualities make Unilever a long-term compounder rather than a high-growth story.

Industry Position

Unilever operates in a mature and competitive FMCG industry, characterized by modest growth, high brand loyalty, and margin discipline. While top-line growth is structurally limited, incumbents like Unilever retain advantages through distribution scale, brand equity, and cost efficiency.

The sector favors companies with strong balance sheets and predictable free cash flows, a profile that Unilever fits well.

Financial Performance Highlights

Historically, Unilever has demonstrated:

- Stable revenues with low volatility
- Consistent operating margins
- Strong free cash flow generation

In this valuation, revenue growth is forecast conservatively at **2.5%**, below historical averages, reflecting Unilever's maturity and cautious macro assumptions. Operating profitability is projected using average EBIT margins derived from historical performance.

NOPAT and FCFF are forecast explicitly, ensuring that the valuation is grounded in operating fundamentals.

Valuation Summary (DCF)

A Free Cash Flow to Firm (FCFF) DCF methodology is used:

- Forecast horizon: 5 years
- Discount rate (WACC): ~8%
- Terminal growth rate: conservative and aligned with long-term inflation

The discounted value of forecast cash flows plus terminal value yields an **enterprise value**, which is adjusted for net debt to derive equity value. The resulting **intrinsic value per share is approximately £61.5**, compared to a current market price of ~£48, implying meaningful undervaluation.

Final View (Recommendation – BUY / HOLD / SELL)

Under conservative assumptions, the market appears to be **undervaluing Unilever's stable cash flows and defensive profile**. While growth is modest, the company offers downside protection, reliable free cash flow, and attractive upside relative to intrinsic value.

Recommendation: BUY — suitable for investors seeking stable returns with moderate upside rather than aggressive growth.