S&P Global
Market Intelligence

Unilever N.V. ENXTAM:UNA

FY 2017 Earnings Call Transcripts

Thursday, February 01, 2018 8:00 AM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2017-			-FQ1 2018-		-FY 2017-			-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	SURPRISE	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	-	-	-	-	-	2.20	2.24	▲1.82	2.41
Revenue (mm)	12865.17	12824.00	▼(0.32 %)	12853.00	▼(1.95 %)	53820.42	53715.00	▼(0.20 %)	53831.07

Currency: EUR
Consensus as of Feb-01-2018 7:41 AM GMT

- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FY 2017	2.20	2.24	▲1 1.82 %

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Call Participants

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Presentation

Operator

We are about to hand over to Unilever to begin the conference call. [Operator Instructions] We will now hand over to Richard Williams.

Richard Williams

Good morning, and welcome to Unilever's Full Year Results Presentation, which will be given in the usual way by Paul and Graeme.

Paul will give the headlines of the performance for the year and talk about how Connected 4 Growth is building more agility, speed and resilience into our business. Graeme will cover the results in a bit more detail, and Paul will wrap up with the priorities and outlook for 2018. We'll leave plenty of time for Q&A.

First, I draw your attention to the disclaimer relating to forward-looking statements and non-GAAP measures.

With that, I'll hand over to Paul.

Paulus Gerardus Josephus Maria Polman
Former Executive Officer

Thank you, Richard, and obviously, welcome to your first official -- the announcements that we have here. And happy February, everybody.

So let me start with some reflections on 2017. Without any doubt, that was a year that has given us a -- given us all, I believe, a taste of the rapid changes that are happening in the society, and that, in my opinion, are only going to speed up.

It was another year of major transformation for Unilever, which already started in 2010. We've seen now the effects of the acceleration of the Connected 4 Growth program that we first announced to you at the end of 2016. Connected 4 Growth, in fact, is the most significant set of changes that we have implemented, at least in my opinion, over the last 10 years. The program, as I mentioned, started end 2016 and addresses the tectonic shifts, which are happening in our business landscape: the changing consumer preferences, the changes in customer channels, the new media to communicate through with our brands.

Now Connected 4 Growth brings, on the one hand, more resilience to continue to perform competitively despite the challenges, and you've seen us do that again once more in 2017, and it will also bring us more agility to seize the opportunities to be faster and more successful. And again, ample opportunity to show you examples during this call.

The changes we've been implementing are fundamental in a number of ways. Firstly, a more nimble organization, including the introduction of the new Country Category Business Teams. This is raising our innovation capabilities to unprecedented levels to meet consumer trends with speed, scale, both locally and globally. This builds on the investments we've made in the last few years in new capabilities in digital, such as our data center for -- what we call our people data center, the U studios or our programmatic trading desk, which is called Ultra.

Now secondly, the accelerated evolution of our portfolio and channels, both organically and through M&A, is also unprecedented. This positions us even better for the faster-growing segments of the future that are obviously key to stay connected with our consumers.

Last year, we announced and completed 11 acquisitions. We also did 5 new brand introductions, and we did the landmark disposal of our spreads business following the carve-out over the last few years.

And last but not least, we've also seen the global rollout of our 5-S program that started in Home Care and is now in all of our businesses. We rolled it out throughout our supply chain as well as the continued implementation of the Zero Based Budgeting that we do across all cost buckets.

These are all accelerating the rate at which we are taking out cost from our business, certainly, the costs that we believe do not add value. And together with the investments we've made over the last few years, they are certainly helping us to provide the fuel for both quality growth as well as margin expansion.

Now when making such fundamental changes, the challenge is always to keep the car going at full speed, whilst you're also tuning the engine, if you allow me to use this well-used analogy. So I think it is a testament to the agility of our people that we have done all of this while still delivering very good all-around performance in 2017. In fact, underlying sales grew by 3.5% in the year, excluding spreads. Volume growth was 1%. Although it was on the lower side than what we would have liked to, we are now planning to raise this in 2018.

There was an encouraging pickup in volume in the fourth quarter, reflecting the benefits of Connected 4 Growth. Our innovations are going faster to market, and we have steadily increased the level of reinvestment of savings behind our brands. This was, however, amplified by a softer comparator and the start of improving conditions in some emerging markets.

Underlying operating margin increased showed -- increasingly also showed a step-up. In this case, 110 basis points to land at 17.5%. We realized more than EUR 2 billion of savings from the 5-S and the ZBB program, and reinvesting actually a little over 2/3 of this back into the business.

The quality of the margin improvement was good, with high gross margin contribution of 40 basis points. We think that this level is both competitive in this environment and, indeed, sustainable in the long term.

We also maintained the absolute level of brand and marketing spend in local currencies, with media up and production cost down. This led to another year where our share of spend and share of market was comfortably above 100. This step-up in margin shows that we are reaping the benefits of investments made over the past few years and has certainly not come, in our opinion, at the expense of growth. We are well on track towards our objective of a 20% margin by 2020.

Underlying operating earnings per share also grew by 11%. And we delivered another step-up in cash generation, with free cash flow up by EUR 600 million to a record EUR 5.4 billion, even after counting in the additional EUR 600 million that we put in our pension fund, which is now more or less balanced. So I think you'll agree that this is a good all-around performance in 2017, and Graeme will cover this as usual in more detail.

Let's have a look at the backdrop of how market conditions are developing.

In 2017, global market growth in our categories remains stubbornly weak. Consumer demand measured in volume grew by less than 1%, even allowing for growth in new channels, which are not picked up in most of the market data. Now the overall indicators are that the global economy is now picking up. Global GDP grew at 2.9% in 2017 and is forecast to pick up to about 3.2% in 2018.

Now particularly relevant to us is the improvement in a number of emerging markets. For example, Brazil show signs of finally coming out of a recession. And there are brighter prospects for India. It is normal for there to be a lag between improving economies and the growth in our categories. But it is encouraging to see an overall improvement in consumer sentiment in emerging markets that we already have alluded to in our previous calls. At the same time, there remains a high level of uncertainty in many countries.

While overall market volumes are soft, there are plenty of opportunities for new sources of growth. Now one of the biggest opportunities, obviously, is leveraging digital, giving a new way of consumers to interact with our brands in real time.

Our global local footprint means we can leverage technologies at scale, whilst pairing these with local insights in a connected and agile way, and that's driving many of our brands. We increasingly see the consumers, particularly millennials, are looking for brands that serve a positive social purpose beyond pure product functionality. And the trends for more natural, organic, free-from authentic products is only accelerating.

The emergence of new distribution channels offers the potential for our brands to reach more directly and deeply than ever before. You've heard us talk a lot about the investments we've made across these channels, and I'll come back to these later.

And yes, there remains plenty of white space with new consumers and new segments in emerging markets, particularly as economics improve and new markets open up. So it's certainly not a no-growth environment.

The fundamentals of our business model and the changes we are making through our Connected 4 Growth programs are helping us to adapt to and seize these enormous opportunities.

We've changed the way we innovate quite significantly. And we're pleased to see that our innovation pipeline is getting stronger, and I would actually argue the strongest it has ever been. Our local teams are now empowered to deliver local innovations, allowing our global divisions and R&D team to fully focus on the bigger strategic global launches, leading to larger projects with more benefits. Like Magnum pints, which delivered over EUR 40 million of turnover in Europe and is now also launched in the U.S. or the relaunch of Lifebuoy where we have improved the product with new antimicrobial technologies using silver. Knorr Natural, Persil Power Gels, Hellmann's Organic are other examples.

At the same time, we're addressing key local consumer trends with more relevance and more speed than ever. Examples here are Lever ayush, which is a great example of the local team being empowered in India, in this case, to ensure we have a big-enough response to the Ayurveda trends that we see in India; or Cif Duo, which gives consumers the benefits of both sprays and foam, a successful launch developed in less than 6 months. It is a good example of how successful local innovations can be picked up and rolled out globally. In fact, these innovations like Cif are now in 15 markets or more.

The changes in our channel landscape also give us the opportunity to reach more consumers with more differentiated products as well as propositions than we've ever done before, and we've taken advantage of this again this year. Take our e-commerce for example, a channel you know very well, where we are growing 80% versus year ago and driving it towards the EUR 2 billion business, with improved capability and with the acquisitions that we've done.

One example of this drive for growth is our laundry bundles developed for Amazon where our understanding of search algorithms allow us to win in search and give more-tailored offerings to consumers. We're also increasingly using our stores, which we have many of now, as experiences. The Pure Leaf pop-up has really helped the brand and its brand equity, and the same is the case for many of our other brands.

Moving to our Partner to Win, our Partner to Win program, which is opening up networks to drive more innovations. And we have empowered the local teams to go faster by making more use of third-party manufacturing where it makes sense.

We're also working with more influencers, another form of partnership, as we did in the launch of Seda Detox with the #1 blogger in Latin America; or the KJU by Lux launch, which is on fast track in China where we partnered with a French perfumer and a Korean graphics designer.

Brand licensing is also opening up new opportunities and new segments like the Knorr chilled range that we've launch in The Netherlands, which takes us into a new segment in a low-cost and, yes, low-risk way.

Now we're starting to see greater entrepreneurial activity in our businesses in all of our categories. This has led, for example, to 6 new organic brand launches this year alone in 2017, like Love Beauty and Planet, a premium personal care range in the U.S.; or Red Red, a vegan, gluten-free snack pot inspired by a popular dish in Ghana launching now in the U.K. as we speak. And we are creating new opportunities through new business models, often helped by the Unilever foundry. This allows us to collaborate with start-ups, matching our brands to leading technologies, like Cif's new partnership with an on-demand home cleaning company; or Hellmann's first foray into the direct-to-consumer space, piloting with a start-up company to deliver fresh ingredients to consumers on-demand.

Now all these are clear examples that the new Connected 4 Growth organization with the Country Category Business Teams are starting to give us a true competitive advantage in addressing the growth opportunities that I referred to earlier.

Alongside innovations, it is a critical part of our strategy to develop the portfolio through M&A to meet future trends and increase our exposure to higher-growth segments. We've been much more active with 21 acquisitions completed or announced since the start of 2015 and 11 last year alone.

As well as moving into higher-growth segments, we also continue to actively manage our portfolio, moving out of brands that no longer fit with our long-term strategies as is the case with the lower-growing spreads business. This all is helping us to reposition our portfolio towards the more attractive segments at a faster pace. By 2019, these acquisitions alone will add about EUR 3.5 billion of turnover, with EUR 3 billion of these in home and Personal Care, EUR 2 billion in premium positions, EUR 1.5 billion in emerging markets and nearly EUR 1 billion through e-commerce.

Now we expect that the combined impact of these acquisitions and the disposal, including spreads, will add around 1% to our ongoing underlying sales growth by 2019.

And with that, let me hand over to Graeme, who will take you through the 2017 results in more detail. Graeme, the floor is yours.

Graeme David Pitkethly
CFO & Executive Director

Thank you, Paul. Good morning, everyone. Let's kick off with the full year performance by category.

All of our categories grew as did all of our subcategories except for spreads, and the step-up in margin was broad-based. Personal Care grew by 2.9%. The core of our PC business continued to grow competitively. Dove, which is our largest brand, now over EUR 4.5 billion, grew 6%. And Sunsilk had another great year, up 9%, helped by a global relaunch with formulation and fragrance upgrades as well as strong performance of a new Naturals range. However, overall PC performance was held back by difficult markets and competitive conditions, particularly in Brazil and Indonesia, which, of course, are large PC markets for us.

Our acquisitions in Personal Care contributed increasingly to USG through the year as we started to anniversary them. Dollar Shave Club and Kate Somerville grew in double digits, while Dermalogica grew at 5%.

Sales in Murad, on the other hand, were down as we restructured our sales profile by reducing the brand's dependence on the infomercial channel. Living Proof and Hourglass are both growing at double digits and will begin to contribute to underlying sales growth in 2018. Carver Korea, Sundial and Schmidt’s Naturals are all exciting acquisitions, which we completed at the end of the year, and they'll start to contribute to underlying sales growth from 2019.

The underlying operating margin for Personal Care increased by 110 basis points to 21%, already reaching our 2020 target margin for this category. Our priority now will be to reinvest to further savings behind improved volume growth.

Home Care grew by 4.4%, with 130 basis point increase in underlying operating margin. Comfort fabric conditioners continue to grow strongly. And in Brazil, our value brand, Brilhante, benefited from consumer down-trading.

Foods, excluding spreads, grew by 2.2%. Underlying operating margin increased by 60 basis points. Knorr grew by 4%, driven by strong growth for cooking products in emerging markets. This was partly offset by a decline in some of our noncore brands.

Refreshment grew by 4.9%, with 160 basis point improvement in underlying operating margin. Ice cream was up by just over 5%, driven by innovation behind brands like Ben & Jerry's and Magnum. In the U.S., we saw an encouraging return to growth following our launch of Breyers delights in U.S. and now in the U.K. with a low-calorie, high-protein proposition.

Tea grew by just under 5%, increasingly benefiting from the moves we've been making to take our tea portfolio into more premium positions.

Now our focus today is, as always, on the full year, but I do think it's worth spending a few moments on growth in the fourth quarter. As you'll have seen, we had a significant pick up in volume and less price growth in the fourth quarter. Let me look first at the volume component.

As you know, we benefited from a soft comparator in the fourth quarter last year as we lapped both demonetization in India and a weak Q4 performance in the U.K. last year when we missed promotional slots following the devaluation-led price increases. Even allowing for this, there was an encouraging pickup in momentum. By the fourth quarter, we were seeing the fruits of our new Connected 4 Growth organization with a much more agile approach to innovation, backed up by increased reinvestments of savings, as Paul described earlier.

We also saw early signs of improving market conditions, particularly in some of the emerging markets, with a return to volume growth in Latin America and good underlying momentum in India. For the full year, our emerging market volume growth was 1.6% and over 4% in the fourth quarter. This is an improvement on 2016, but still some way short of the 4% to 5%, which has been our long term average volume growth in emerging markets. We remain confident that over the medium term, we will see a pickup in emerging market growth, though it's in the nature of these markets, of course, that it won't be a straight-line trajectory.

Price growth reduced to 0.7% in the fourth quarter. The reduction was broad-based across countries and mostly reflects the more benign commodity cost environment that we've signaled previously. In the first half of the year, commodity costs in local currencies were up by mid- to high single digits. But in the second half, this reduced to mid- to low single digits. Now looking ahead, commodity cost increases will remain relatively low in the first half of 2018, but we do expect the level of commodity cost increases to rise again in the second half of this year.

In addition, in India, we've passed on lower input taxes from GST directly through to consumers. This depresses price growth in the second half of 2017, and that will continue to be a drag on pricing during the first half of 2018.

Finally, in Latin America, inflation has come down sharply in both Brazil and in Argentina. At the same time, in Venezuela, inflation escalated to well over 1,000 percentage points in the fourth quarter. With effect from October, we therefore started to treat price growth in Venezuela as a currency effect and excluded it from underlying sales growth, which, as you know, is calculated at constant exchange rates. Now there's no impact on the reported measures of turnover and profit as these are both measured at current exchange rates, and on this basis, Venezuela is pretty negligible. All of these factors mean that price growth in the first half of 2018 is likely to remain relatively muted.

Coming back to the full year. Underlying sales growth was 3.1%, including 1% from volume and 2% from price, with a drag of 40 basis points from spreads. M&A increased turnover by 0.9% with acquisitions, partly offset by the disposal of Ades at the end of the first quarter.

Currency translation reduced turnover by 2.1%. This was mainly due to the strengthening of the euro, and it masks the fact that most of the emerging market currencies have actually strengthened against the U.S. dollar. If exchange rates were to stay as they are today, we would expect currency to be a continued drag on our reported performance in euros during 2018 of about 5% on turnover and around the same on EPS.

Underlying operating margin improved by 110 basis points. This was led by our savings programs, which delivered more than EUR 2 billion in the year. Now this is a little faster than planned and is a very strong start towards our target of EUR 6 billion over the 3 years to 2019. In line with our plans, we've reinvested just over 2/3 of these savings in capability-building and in the competitiveness of our brands. The level of reinvestments stepped up progressively through the year in both brand and marketing investment and in pricing.

Around 1/2 of the savings where from the 5-S program in the supply chain, most of which we reinvest. These savings, along with an improvement in our mix, led to a gross margin improvement of 40 basis points, which was quite evenly phased throughout the year. Brand and marketing investment for the year was up marginally in absolute terms in local currencies. Importantly, though, our media and in-store spend increased by around EUR 250 million. The impact of this increase was even higher as it was offset by efficiencies, largely in advertising production from Zero Based Budgeting. To put it simply, we used to make too many pieces of traditional TV advertising and we used to take them off-air before they reach their full effectiveness. We're now making fewer adverts and reinvesting the savings, and showing the best ones for longer, while stepping up our investment in digital media. As a result, we continue to be very competitive in our media share of voice.

As a percentage of sales, brand and marketing investment reduced by 60 basis points. Overheads reduced by 10 basis points. Here, the savings have been largely reinvested in building the capabilities, which will drive continued growth into the future. For example, the new business models we've acquired and are developing typically have a higher proportion of cost and overheads than traditional models. Now this could be training centers for beauty professionals in Dermalogica, for example, or pop-up in flagship stores that we used to build brand awareness in our Refreshments category. We've invested in a team of 800 people dedicated to building sales of our core business through e-commerce.

Underlying earnings per share increased by 11% in both current and in constant rates. Operational performance, which is the combination of growth and margin, contributed the lion's share of this at 10.4%. Minority interests were a bit of a drag on EPS as a result of higher profit in India and elsewhere, and the further drag came from the lapping of some gains made on noncurrent investments last year.

Our underlying tax rate was in line with last year at 26%. This was a little lower than the guidance we've given of 27% as a result of the favorable conclusion of some tax audits. Looking ahead and including a small benefit from the recent U.S. tax changes, we now expect our tax rate over the medium term to be around 26%.

Interest costs on net debt reduced from 3.5% in 2016 to 2.7%, reflecting lower rates on increased borrowings. In 2018, we expect the interest rate on net debt to be around 3%. The EUR 5 billion share buyback had a 1.6% impact on 2017 EPS and will have a 12-month impact of 3.5%.

Finally, currency movements decreased EPS by around 0.3%. The currency effect is more favorable in EPS than on turnover for a number of reasons, including a weaker pound sterling, which reduces the cost expressed in euros of our U.K.-based central costs, such as research and development.

GAAP net profit increased by 17% to EUR 6.5 billion. This included a one-off gain of EUR 578 million from restating deferred tax balances at the new lower U.S. Federal tax rate and a profit of EUR 309 million on the disposal of the Ades business. These were partly offset by the EUR 382 million, which was the book premium paid to acquire the high voting preference shares. This buyback of the preference shares was an important step to simplify our capital structure and improve corporate governance.

Free cash flow in the year was EUR 5.4 billion. That's an increase of EUR 600 million on last year. And this was achieved despite a one-off injection of EUR 600 million into our pension funds.

In spite of an acceleration in M&A activity, our return on invested capital was unchanged at 19.2%, a very high level and well within our targeted high-teens range. The boost from the growth in top line profitability balanced the increased goodwill from the acquisitions. And this demonstrates our value-creation model of compounding returns of investment where our #1 priority is growing the core of the business, whilst at the same time, evolving our portfolio to address future growth opportunities.

Net debt increased from EUR 12.6 billion at the end of last year to EUR 20.3 billion. This includes around EUR 4.4 billion of net investment in acquisitions less disposal proceeds and the impact of the EUR 5 billion share buyback. As a result, our leverage ended the year at 1.0x net debt-to-EBITDA, very close to our target of 2x.

Looking ahead, our plans to tackle the stranded fixed cost as a result of disposal of spreads are well underway. There will be a short-term dilution to our underlying operating margin and EPS starting from the point of completion, which is expected to be in the middle of the year. We expect to receive net proceeds of around EUR 6 billion when we complete the disposal of spreads. And as we said at the time of the announcement, we plan to return this to shareholders, unless more value-creating acquisition opportunities arise.

Our net pension deficit reduced from EUR 3.2 billion at the end of last year to just EUR 0.6 billion, which is its lowest level for over 10 years. This was a result both of strong investment returns and the one-off cash injection. As a result, the financing charge in pensions will reduce from EUR 96 million to around EUR 35 million in 2018.

And with that, let me hand back to Paul for some concluding remarks.

Paulus Gerardus Josephus Maria Polman
Former Executive Officer

Thanks, Graeme. We'll finish with a look at our priorities and the outlook for 2018. There is no doubt that this will be a busy year. We will complete the integration of the Food & Refreshment and, as well, the completion of the exit from our spreads business. But without doubt -- any doubt, our #1 priority remains to grow our volumes ahead of the market, and we are confident that we have the plans in place to just do that.

Connected 4 Growth is improving our innovation pipeline, agility and execution, as you have seen. 5-S and Zero Based Budgeting will continue to deliver strong savings, which will be reinvested to provide the fuel for growth. And we will progressively see the benefits of the evolution of our portfolio to higher-growth segments through the accelerated M&A activities that we've undertaken.

Now looking ahead, we do not expect any slowdown in the pace of change around us. So we are already thinking about further development of our capabilities, organization and portfolio that will keep us fit for the future. That includes the review of our legal structure, and we expect to have further news on this shortly. The changes we are making will help us adapt to meet the challenges and opportunities of a changing world, and we're confident that we will deliver on the targets we have set out in our 2020 plan.

So to wrap up, for 2018, we expect to deliver an underlying sales growth ahead of the market in the 3% to 5% range. And as Graeme explained, we expect this to include a greater contribution from volume than in 2017 and lower price growth, particularly in the first part of the year. And we expect continued progress towards our 2020 underlying operating margin of 20%, fueled by our savings program.

There will be more restructuring as we start to take out stranded costs from spreads and set up the new Food & Refreshment unit. We continued to maintain competitive brand levels of marketing and brand spend. And compared to 2017, this will once more be more weighted, in this case, towards the first half versus the second half. We also target another year of strong cash flow.
And with that, let me start with taking the questions. Thank you all for listening.

Question and Answer

Richard Williams

Thank you, Paul. [Operator Instructions] So I see that our first question is from Jonathan Feeney at Consumer Edge. Go ahead, Jonathan.

Jonathan Patrick Feeney
Consumer Edge Research, LLC

Two questions, please. First, Paul, you made some comments at the, when we got together back in November, about the easier comparisons in emerging markets in the front half of the year. Is it fair to say that you feel like -- you feel better about your underlying sales growth for the front half of 2018, that maybe it's -- maybe a little bit more weighted to that front half growth-wise? And secondly, [odd] that you made a comment -- you just made a comment that your innovation pipeline is as strong as you've ever seen it. Is there any way you could quantify that for us, maybe how much of that underlying sales growth for this year or whatever time line you're referring to is slated to come from that innovation pipeline?

Paulus Gerardus Josephus Maria Polman
Former Executive Officer

Thanks, Jonathan, for the question. I appreciate that. What we are saying very clearly is that we are, for 2018, more or less happy with the current consensus. I just looked at that a few days ago, but that the forecast will be skewed actually towards the second half in terms of growth and margin contributions for 2 reasons. In the second half, first of all, on the commodity side, and Graeme can go into that in more detail, but we see more inflation coming in, in the second half, a function of the current currency movements and our own contracts. So second half, you'll have a little bit more pricing than the first half. We also have to deal in the first half, still, some of the effects that are coming in from lower inflation rates, especially in LatAm, that probably will be reflected in lower pricing, which brings me to the question on volume. We've really seen behind Connected 4 Growth, as we have told you in previous discussions, an acceleration of our innovations. It's really unprecedented that we have launched 5 new brands ourselves, and that takes a little bit of time, but we've done that really efficiently and effectively. They might not all work, but I'm certainly expecting, in aggregate, that they will. And then, at the same time, we've also seen the markets connect more to these trends that are happening in individual markets and responding to that. And again, we've shared ample examples with you but we could do more. And then finally, over the second half, we should start to see some of these M&A activities coming in, which are not yet in the first half. So I think on the volume and pricing side will be more skewed towards the second half. And the volume component will definitely be higher than 2017 because, really, of these fundamental changes we've made to Connected 4 Growth. I don't know if Graeme wants to add things on the commodity so that we cover that right now.

Graeme David Pitkethly
CFO & Executive Director

Yes, Jonathan. Just on the balance of pricing growth, which we said we expect to be a little bit lower in the first half next year than the second half. Three main drivers to that. One is actually the Goods and Services Tax implementation in India because in the second half of '17 and, indeed, the first half of '18, that reduces the pricing growth in India, and that has an impact at a Unilever level. The commodity cost increases, we see them being phased more to the second half than the first half. And of course, we've got lower Latin American inflation overall so we think a little bit less price in the first half than in the second.

Paulus Gerardus Josephus Maria Polman
Former Executive Officer

I hope that answers it, Jonathan.

Jonathan Patrick Feeney

Consumer Edge Research, LLC

It does.

Paulus Gerardus Josephus Maria Polman
Former Executive Officer

Thank you.

Richard Williams

Okay. The second question comes from Warren Ackerman at SocGen.

Warren Lester Ackerman
Societe Generale Cross Asset Research

Good job today. Two questions, please, from my side. Graeme, at the Q3 stage, you said that you left some [runs] in the field and that your competitiveness wasn't as good as expected. It looks like you've got your A game back in Q4. Can you maybe talk about your market share performance in Q4 versus Q3? And also, category growth, which has been stubbornly pegged at 2% by value, is there any sign of that improving? And then secondly, on emerging markets. It's very pleasing to see very strong volume component in Q4, I think it's double the Q3 level for [place, too]. Are you able to talk to us a bit about the BRIC markets? In particular, in Q4, you said that Brazil will be back into volume-positive in Q4. Can you confirm that and talk about the other BRIC markets in the fourth quarter and outlook for 2018?

Paulus Gerardus Josephus Maria Polman
Former Executive Officer

Thanks, Warren. And coming from you that this was a good job is a real compliment. We normally don't expect that, so I appreciate that. But I also want to tell you that we don't live by these 90-day cycles, and you really need to get off that. So whilst the quarter 3 might have been a little softer, quarter 4 is a little better, we look at it at a little bit longer time frame than you sometimes do. So what we've seen in the last quarter, and we don't even have the shares yet because they come in with a slight delay, but if you look at the market growth, we estimate that the market growth, all-in, is now about 3%. So if you look at the last quarter's results of 4.3%, with a strong 3.1% volume component, and we are a little bit careful there because of India that you've well read the demonetization and general sales tax effects. But we do see a pickup and we do expect that the quarter 4 volumes that we've put in as well as overall sales growth would result in a increase in the number of businesses building share, and we expect that to continue over the second half. In terms of the countries, specifically, where we see pickups, we see India getting better. I'm fairly positive on that. I was with the [President Mori] last week in Davos, and we had good discussions on the direction the country takes. We've always said that, whilst the general sales tax and demonetization might give us short-term shocks and disturb these quarters a little bit, they are also the right long-term things for the country. We also see that Brazil is starting to pick up, albeit from a low base, but we don't see the declines anymore and already stabilizing this and from there moving forward is for us very positive from where we came from. So the reforms that they're starting to put in are positive. We obviously have to watch now again the elections coming in. And then last but not least, and I just wanted to stick to the bigger countries, China, we've seen an acceleration of our growth rates, partly because the market keeps growing. We had a strong high single digit last quarter there and partly because, obviously, the shifts that have happened in this market, the enormous shifts in this case to e-commerce, it takes a little bit for companies like ours to adjust to that, but we've clearly made these adjustments. So I'm relatively bullish on some of these markets. There are some other markets we have to be careful about. South Africa, obviously, with the changes that are happening there, I'm relatively positive, so that's good for us. Indonesia, we'd like to see a little more still. So South East Asia, I would say, is still the softer part. And then Latin America, in total, what you have to keep in mind is that, with inflation coming off significantly, and Graeme already alluded to that, we might see higher-quality growth there in terms of the volume component. But we certainly will have to compromise on the price component versus 2017. So all in all, as I alluded to already in Englewood Cliffs, and on the previous call, we are slightly more optimistic about these emerging markets moving forward in aggregate. And we also think once more that having 60% of our business there and obviously these very strong positions that we are very well placed to capitalize on that.

Richard Williams

Okay, yes. So thanks, Warren. Next question is from Celine Pannuti of JPMorgan.

Celine A.H. Pannuti
JP Morgan Chase & Co, Research Division

My first question is on your volume outlook. You said that volume will be more H2-weighted. Could you explain a bit that because I think, if I look at the comp, seems to be better -- easier in the first half. I think there was as well some issues in India all of last year, especially in the first half. And then the momentum you seem to show in terms of volume is positive in Q4. So I'm a bit surprised by your comment on lower-volume growth in H1, so if you could explain a bit better. My second question is on pricing. Thank you for what you commented on the U.S. -- on LatAm. If I move to the U.S., could you talk to us about pricing situation there? We've seen minus -- close to [minus 1] in the fourth quarter. At the same time, we've seen a big rebound in volume. And in there, if you could give us the detail of the contribution from both the M&A and the new brands that were launched in that market?

Paulus Gerardus Josephus Maria Polman
Former Executive Officer

May I start with the U.S., Celine, and thanks for the questions. If you take the U.S., what really is happening there, obviously, people are a little bit more positive now with the tax cut coming in, which has a short-term effect for the next few years and then probably starts to backfire. But if you take the next 4 or 5 years that's being seen as a positive effect, that might lift their global economy -- their economy by about 1.2% in terms of growth rates from the latest estimates that I've seen. We've obviously done quite some pricing in the U.S. in the last few years. That is becoming, I think, a little bit more difficult compared to Europe right now. And unfortunately, on the volume side, what we've seen in the U.S. is that the wealth creation that is happening in this country, and I've been alluding to that many times, is really only going to a very small part of the population. In 2017, I just got this data from Davos once more, all the global growth has only gone to about 14% of the world population. 86% of the world population, according to an Oxfam study, has not seen any progress. In the U.S., the same thing, the growth is not well spread. So we see our markets actually being fairly subdued, whilst the economy might report good numbers. We, therefore, have embarked in a much more accelerated pace in the U.S. on the transformation of our portfolio. The numbers that we report, obviously, in the U.S. growth are numbers that exclude our premium prestige businesses, some of the M&A activity that has come in, in the last year or 2. So if we look at the total Unilever in the U.S., our growth rates probably, even today, would be more closer to the 2% than the flat rates that we're putting in right now. But it does require a continuation of our portfolio transition. And then last year, obviously, we were hurt by a introduction in ice cream of a competitor that we talked about. Whilst our global refreshment unit was the fastest growing unit last year for Unilever with stellar results, by the way, close to 5%, if you want to, the U.S., unfortunately, had to deal with this competitive [strat]. If you look at the volume over the first half and the second half, I think we will have to -- the reason why we are a little bit more positive on the higher-volume components over the second half is actually because of the C4G and the brand innovation plans. If you launch 5 brands like Alan Jope has done, just in Personal Care alone, these brands are introduced in the market, but it will take a little bit before you see them giving you the volume benefits. So that's definitely a component of it. And the second component on the volume part is if you're really look at the effects of the -- in some of the macro changes that are happening in our markets that we have to deal with, I still think it's better more skewed towards the second half that these markets are fully starting to unlock their growth potential because a lot of the markets that we are in have not really done the, how do I call it, the structural reforms that are actually needed. One of the things we are pleading for, with many of these governments now is, now that these economies are starting to pick up a little bit that they need to have a little bit more courage, Europe included, to start to drive through these structural reforms. It's going to happen, but I think you'll see markets picking up more towards the second half of the year for that reason than towards the first half.

Graeme David Pitkethly

CFO & Executive Director

Can I just clarify? Celine, we definitely have visibility of a lower pricing environment in the first half versus the second half. I think volumes -- and we see this strong volume performance in the fourth quarter. There's good momentum there. As Paul says, it'll continue to build through the balance of the year because of our innovation, because of the strong brand investment and a recovery in markets like India, China and Brazil, et cetera. But we have much more visibility of the pricing phasing than volume, which we think will continue to get better, but it's not necessarily an H1, H2 shift.

Paulus Gerardus Josephus Maria Polman
Former Executive Officer

So first half -- perhaps there might be a little confusion in your question. First half volume is better than what we had last year in the first half, if that's what you're asking.

Celine A.H. Pannuti
JP Morgan Chase & Co, Research Division

Well, it was more H1 versus H2 that I was asking. But...

Paulus Gerardus Josephus Maria Polman
Former Executive Officer

So I think we've covered H1, H2. But it's also good to keep in mind that our volume momentum will already be good over the first half as well, if we didn't communicate that clearly, [indiscernible].

Celine A.H. Pannuti
JP Morgan Chase & Co, Research Division

Yes, that's what I wanted to clarify.

Paulus Gerardus Josephus Maria Polman
Former Executive Officer

No. Thanks, Celine.

Richard Williams

Thanks, Celine. Next question comes from James Targett from Berenberg. Okay. In that case, let's move to Martin Deboo from Jefferies.

Martin John Deboo
Jefferies LLC, Research Division

Yes. Just one question, really. I just want to clarify what you're saying on the buyback. Your intention is to invest the total net proceeds of the spreads sale into buybacks this year and no more and no less than that, can I just be clear?

Graeme David Pitkethly
CFO & Executive Director

Martin, what we -- we think we'd get about EUR 6 billion in the middle of the year when spreads closes. Our intention, if we're not able to find acquisition opportunities that we think are value-creating and attractive, then we'd return that to shareholders. We haven't yet determined how we would do that, but it's dependent on acquisition opportunities. And we'll tackle that as and when we have closed the spreads transaction.

Richard Williams

And next question is from Eddy Hargreaves from Investec.

Edward John Hargreaves
Investec Bank plc, Research Division

Yes, a couple for me. One is following up from Martin's question there, just on timing of that EUR 6 billion-ish buyback. Sort of how long would you give yourself to assess any M&A opportunities before deciding whether or not to hit the button on the buyback subsequent to the cash coming in? And then the second question is just more technical on Venezuela. As I understand it, the 3% to 5% guidance for top line in fiscal 2018, in fact, includes a drag, which wasn't present except for the final quarter in 2017. Would that drag be roughly 50 bps? Could you confirm or clarify that, please?

Paulus Gerardus Josephus Maria Polman
Former Executive Officer

Yes. The drag is slightly lower, but you are right, so you can do the calculations. And the second thing is, on the share buybacks, we don't jump right away on share buybacks. We'll take our time depending on where we are with M&A. I think that has been well answered, Eddy. Thanks.

Richard Williams

Okay. Next question comes from Reg Watson at ING.

Reginald Leonard Watson
ING Groep N.V., Research Division

Sticking with the theme of capital return, I'm going to ask you how buyback could actually be value-accretive, given that you sold spreads at [top] 9x multiple and the share price is currently 14x.

Graeme David Pitkethly
CFO & Executive Director

Well, we haven't said that we're going to do a share buyback, Reg. So...

Reginald Leonard Watson
ING Groep N.V., Research Division

Okay. There seems to be a reigning assumption that you will.

Paulus Gerardus Josephus Maria Polman
Former Executive Officer

No, you guys are filling in your spreadsheets, so you want to know what we'd do with the EUR 6 billion of spreads. Let me just be very clear once more. When the revenues come in of the EUR 6 billion of spreads, we'll look at that and in function of many other opportunities that we have in the business, including M&A. So that's it. No, no, we don't...

Graeme David Pitkethly
CFO & Executive Director

The divestment of spreads was to reshape the portfolio strategically, and you see the benefit of that in the 1% growth uplift that we'll have in 2019 from the divestment and from the M&A transactions that we've done the acquisitions we've done so far. That's how we're thinking about it, Reg. It's a strategic reshape of the portfolio rather than sort of [indiscernible].

Reginald Leonard Watson
ING Groep N.V., Research Division

Okay. No, no, that's fair enough because I think you probably need a decade of improved growth to justify it. But...

Paulus Gerardus Josephus Maria Polman
Former Executive Officer

Well, anybody can do its calculations. We have a return on invested capital of 19.2%. And if you have a return on invested capital of 19.2%, I think it would be wise for the bulk of our shareholders to look at opportunities to grow our business and keep it there. Interestingly, we've maintained our return on invested capital from a total company perspective despite, and by the way, it's one of the highest in the industry the way I've been given the data, despite having done 20 acquisitions in the last 2.5 years. So if this world is about growing and creating jobs, if this world is about compounded growth and wealth creation, you really have an example here with the Unilever model, and that's what we're trying to do and continue to do.

Reginald Leonard Watson
ING Groep N.V., Research Division

Okay. And just a detail question on the restructuring costs. In '17, they were only 10% higher than they were in '16, and yet '17 was the first full year of the major restructuring programs that you're undertaking. How do you expect that to evolve in '18? Because I have expected it to be heavier in '17 and it wasn't.

Graeme David Pitkethly
CFO & Executive Director

I guess it wasn't a full year as such. We expect 2018 to be the major restructuring. Obviously, we have certainty now on a big component of that, which is the [unscheduled] costs that we have following the spreads disposal, and that's job 1, to get going on that. We think we will see the big step-up in restructuring investment in 2018. And that is really job 1 for us, to make those changes, focusing on the spreads divestment, et cetera, so look for that to step up. But 2017 wasn't a full year, and we didn't have clarity with regard to spreads.

Reginald Leonard Watson
ING Groep N.V., Research Division

Okay. And just to be clear, that's likely to really impact in the second half of '18 then as well?

Graeme David Pitkethly
CFO & Executive Director

I think it will ramp-up through the course of the year, yes.

Richard Williams

Okay. Next question is from Karel Zoete from Kepler Cheuvreux.

Karel Zoete
Kepler Cheuvreux, Research Division

Two questions, please. First one is on Home Care. Compared to some competitors, you've seen clearly a pickup in the fourth quarter and also with the positive pricing. So can you clarify a little bit better why you've seen the pickup and where things are going well? And then the second question is on the operating leverage because the volume growth in the Personal Care business was quite okay. What kind of operational leverage are you seeing in the business, based on the volume pickup?

Paulus Gerardus Josephus Maria Polman
Former Executive Officer

Yes. So you used Personal Care and Home Care, I assume you want to stick with Home Care, right, because now [indiscernible]. It's Home Care?

Karel Zoete
Kepler Cheuvreux, Research Division

Yes, please.

Paulus Gerardus Josephus Maria Polman
Former Executive Officer

Yes, sorry. So on Home Care, I think, as you well know, it has been and continues to be our best-performing unit, actually, over the 8- or 9-year period of time, if I reflect back. And this year again, the growth rates are well above 4%. Last quarter, again, 6.5%. It's really a terrific unit. And I believe that we are and continue to be the fastest-growing Home Care unit in the industry, so it's very well managed. And obviously, what drives that top line growth is an incredibly strong and continuous innovation pipeline. Brands like Domestos are growing double digit and continue to grow double digit. Brands like Comfort are doing extremely well behind the different initiatives of Intense and the different perfumes that we have. Cif, that I alluded to. And then on top of that, we've had some expansions. For example, Omo in the Middle East is growing 150%. We launched that into Saudi, and it's doing extremely well for us. Lysoform, we've introduced in Italy, as an example. So this is a category that is attractive because of its trends, urbanization. People getting into homes, kitchens and bathrooms. But it's also attractive in the way it's being run in our portfolio that we have. In terms of leverage in the unit, it's actually the same thing. Nitin, who ran this unit very well, has just moved to food and refreshments as we put these units together. But Nitin has actually been the originator of what we call the 5-S program, which is now being expanded across the other categories. And not surprisingly, what you see again, underlying operating margin up 130 basis points, which is well ahead of the rest of the company, if you look at it that way, and well on track to getting to its target margin by 2020. Very disciplined unit, and we like to keep it that way. Thank you.

Richard Williams

We'll take one more question. We have been Pinar Ergun from UBS on the line.

Pinar Ergun
UBS Investment Bank, Research Division

My first question is on margins. There are a few moving parts with softer pricing, spreads disposal, cost savings, are you able to give us a more specific range for where you expect 2018 EBIT margin to be? And the second one is on legal review. You said that it's going well and will be concluded shortly. And I noticed that you bought back all the preference shares, so I was wondering if you have any comments on what you may wish to do in the future with the Unilever Trust Office in The Netherlands?

Paulus Gerardus Josephus Maria Polman
Former Executive Officer

Yes. I'll let Graeme go into margin, I'll come back to this [indiscernible].

Graeme David Pitkethly
CFO & Executive Director

I guess, we got this 2020 20% target out there, and '17 represents a really good progress start towards that with 110. We don't want to be more specific about a particular number of delivery in 2018. We want to be able to balance driving the volume growth component in the business, but we do think we'll continue to make good progress and that we will keep ourselves thoroughly on track towards that 2020 longer-term target. We know we'll have strong delivery from our savings programs. We'll keep putting 2/3 of that back, reinvested behind the brands and behind capability. We do think our gross margin will continue to improve with 40 basis points this year. We'll get that through mix, we'll get that through 5-S, and we'll continue to be competitive, and there will be a nice spend. We think we'll have an absolute step-up in spend again in the first half 2018. And we'll continue to drive progress through ZBB and underlying overheads. So we've got to do all that and also cover what we think will be a 30 to 40 basis point margin dilution from spreads, assuming a midyear completion. So we've got lots of work to do, but we're confident we're off to a good start, and we've got all the levers and programs in place to allow us to do that.

Paulus Gerardus Josephus Maria Polman
Former Executive Officer

A busy year. On the unification, what we have also explained in New Jersey when we had the end-of-the-year investor meeting again, and the news is still the same. We are determined, obviously, as Unilever to operate under the highest levels of corporate governance. And what we've made clear is that we will be working under the strictest corporate governance of both the U.K. and The Netherlands, whatever the outcome is. And part of that has been our desire already for many years, nothing new, to respect the one share, one vote, and we're very happy that, after many years of discussion, by the way, with the pref shareholders, which have the right to keep it that we've actually come to a conclusion to take the shares out, the trust office in The Netherlands is there for 2 reasons. It's to balance against the pref shares, so that reason will be taken away now that the pref shares are retired and moved out of the systems we've been very clear with that. And the other one is a requirement to have attendance in the shareholder meetings. And if unification happens under whatever form and whatever shape, then that requirement most likely will also disappear. And then it's indeed the right moment to have a discussion with the trust office, which is really a function also of the trust office itself on what the future of that institution should be or not, and that would be sequentially on our agenda, just to be fully transparent. The most important thing for us is, without any doubt, is that we continue to operate under the highest levels of corporate governance. And having taken the pref shares out, having the yearly votes for our Board of Directors and many other things, I do believe that, like compensation, et cetera, that Unilever is on the foreground, especially with the desired changes that people are looking for in corporate governance. We try to lead that in many areas. And I think that's a good thing, just like it's a good thing to be a responsible taxpayer or to welcome diversity. And I think the financial market now also increasingly understands why things like our Unilever Sustainable Living Plan and managing our risks and transparencies and responsible business models is becoming an increasing competitive advantage. So we will again here operate under the highest standards. So I thank, everybody, because we're [indiscernible] on time, as the French say, for your active engagement and for your support, our year has started well, but it will be a busy year and we're fully focused on delivering that both again on the top and bottom line, which will be then a 10th year of performance. I hope you've also seen from the results that we've announced today that our Connected 4 Growth program that started in all earnest in 2016 is really starting to pay its dividends and makes us feel a little bit more confident also against the background of a slightly more positive global economy that I'm happy to report for the first time, basically, in the last 8, 9 or 10 years. So I hope that we have all the things going for us, but it be hard work as usual, but the team here is prepared to do that.

So thanks for your support, and we look forward to seeing many of you during our market visits. Thank you very much.

Graeme David Pitkethly
CFO & Executive Director

Thanks, everyone.

Richard Williams

Thank you Paul, thank you Graeme. And with that, we'll close the call.

Operator
This conference has been recorded. Details of the replay can be found on the Unilever website, and will be available shortly. Thank you.