

Financial Management LCMB7002

Assessment 1



Student name: Maria Popan

Student Number: 2024734

Lecturer: Jia Miao

Submission Date: 10-May-21



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Introduction

Unilever is the world's second-biggest manufacturer of consumer packaged goods. Its market capitalisation is currently 119.63 Billion. The corporation owns over 400 products grouped into four categories: snacks, beverages, personal care, and home care. These products include Axe, Knorr, Lipton, and Heart, which cover 70% of global households and operate in over 190 countries. Unilever was founded in 1929 when the Dutch Margarine Union and the British Lever Brothers merged. It is headquartered in two locations: the Netherlands and the United Kingdom. As part of its primary objective as an organisation, the corporation provides environmental resources and products. This study would analyse Unilever's balance sheet and income statement in depth from 2016 to 2020. This report aims to ascertain the aggregate pattern in benefit and net income, liquidity; profitability; efficiency; and expenditure. Unilever's financial results were used to help us recognise essential partnerships and patterns. These are viewed comparatively to one another. Unilever's current ratio was primarily positive, indicating that the firm would repay short-term loans with its short-term cash. However, the company's debt exceeded its assets, which is a negative indicator for the company. In general, rising profitability, improving asset quality, and prudent financial leveraging culminated in a steady growth in ROE.

Part A

Brief Background of Unilever

Unilever is an international consumer products company headquartered in London, England, and Rotterdam, Netherlands. Meat, confections, electricity liquids, baby milk, soft snacks, cheese, ice cream, tea, cleaning sellers, espresso, canine food, bottled water, toothpaste, chewing gum, frozen popcorn, fertility testing, juice, margarine, splendour items, personal remedy, morning cereals, pharmacy, and consumer deals bits are among the products generated by Unilever. Unilever is the biggest soap producer in the country. Unilever products are sold in almost 190 nations. In 2017, Unilever sold over 400 brands and made a profit of 53.7 billion euros. Ingredients & refreshments, home treatment, and splendour & private care are the three main divisions of Unilever. China, India, the Netherlands, the United Kingdom, and the United States also have research and development centres. Unilever was established on September 2, 1929, when the Dutch margarine maker Margarine Unie and the British soap manufacturer



Lever Brothers merged. The economic sector developed notably remarkable as a producer of goods made from oils and fats in the twentieth century, and it extended its activities across the world. In 1997, Unilever sold the chemical agencies that deal with extreme elements to ICI. The corporation steadily changed its emphasis away from slow-growing food suppliers and health and beauty goods under Paul Polman's leadership in the 2010s.

Unilever became the first company listed on the London Stock Exchange and part of the FTSE 100 Index. Unilever is a member of the AEX index and has a secondary listing on Euronext Amsterdam. In addition, the firm is included in the Euro Stoxx 50 stock exchange benchmark. Unilever already has a New York Stock Exchange account (Wikipedia, 2021).

Business Model

A business model is a description of an organization's charge sound judgment regarding how it generates and captures customer demand (Fielt, 2011).

Customer Segments

Unilever categorises the demand by food. Each packaging style is targeted at a particular consumer category or markets, with certain businesses offering a "premium" range for more wealthy consumers. The bulk of its revenues (58%) come from developing markets (Unilever, 2021).

Personal Care: Personal Care encompasses both mature and emerging economies across several brands. Lux, for example, is solely focused on developed economies, while Lifebuoy is solely focused on established markets. It also has regional brands, such as Citra, ostensibly for marketing purposes. Following the acquisition of four luxury skincare companies, Unilever launched a 'Prestige' range of Personal Care firms. This collection is targeted at well-to-do buyer in developing countries.

Foods: Foods operates in both established and emerging markets, and the company's products are often marketed as providing high-quality household items at an affordable price. Two brands come to mind: Knorr and Hellmann's. Foods derives 40% of its revenue from developing markets, which are growing at a pace of 6.5 percent per year.

Home Care: Home Care accounts for 80% of sales in emerging markets.



Refreshment: Directly sold domestic and leisure goods all come into the heading of refreshment. Lipton, the world's largest tea company, is positioned as a kitchen essential, while Magnum targets wealthy consumers (and is thus available only in more affluent countries).

Value Proposition

Unilever's primary value proposition is as a producer of high-quality products at a competitive cost. Due to its size, it can deliver products at a cheaper cost while retaining the same level of service. Additionally, due to its size, it can penetrate niche markets, especially in emerging markets. This ensures that the same Unilever brands are sold in supermarkets in the United States and by street sellers in Thailand. This coverage helps Unilever's branding efforts, which result in increased revenue. Unilever has a variety of brands, each with its own set of benefits. Magnum, for example, is famous for its high-quality, low-cost ice cream. On the other side, Knorr is renowned for its low-cost kitchen basics, including stock cubes and sauces. Unilever's main message is that its products are more consistent, well-engineered, and dependable and that they are priced appropriately for the application and customer.

Channels

Unilever uses a multichannel approach, with networks tailored to the location or country in which the service is provided and the product being sold. It has trade relationships with centrally controlled corporate clients in developing countries and individual retailers in various emerging markets. Unilever has its e-commerce portal in certain nations, while in others, it works with third-party e-commerce platforms.

Customer Relationships

Unilever relies strongly on the cultural dimensions of its trademarks to sell its goods and services to both corporate and institutional customers – the company operates 13 €1 billion brands spanning from Axe to Surf and has over €17 billion in goodwill. Unilever, an organisation renowned for its capacity to collaborate efficiently, takes an innovative and adaptable approach to food advertising. For example, it places a strong emphasis on social media and digital marketing, especially in developed countries, and it keeps a close eye on changing digital preferences to adjust its marketing strategies accordingly. It also makes money from competitions and collaborations with social media personalities and media outlets – examples include All Things Hair, an online entertainment site that collaborates with vloggers to create videos, and Vice, a youth media network.



Key Activities

The manufacturing and selling of fast-moving consumer goods is Unilever's main industry.

Key Partners

Upstream producers and downstream advertisers and resellers are two of Unilever's most important allies. Suppliers range from large agricultural conglomerates to small-scale farmers, while retailers and resellers comprise anything from supermarkets to small-business distributors. Additionally, it works together with advertising firms to maintain the efficiency of the publicity promotions. Unilever promotes CSR programmes through collaboration with NGOs and multinational non-governmental organisations (NGOs), and strategic corporate associates. UNICEF and the Department for International Development are two of the sector's key allies.

Key Resource

The most critical assets of Unilever include its existing brand image, identity, and goodwill, as well as its property, buildings, human resources, and machinery.

Cost Structure

The direct costs incurred by Unilever include production (raw and manufactured materials, product imported for resale), labour, sales, and promotion and administration.

Revenue Streams

Unilever's four sector lines would be critical sales generators in the 2020 fiscal year. Personal Care and Beauty produces €21 billion in sales, accounting for 41% of total revenue and 52% of operating profit for the company. Foods and Refreshment produce €19.1 billion, accounting for 38% of company revenue and 33% of operating profit. Home Care produces €10,5 billion, accounting for 21% of the group's revenue and 15% of operating profit.

Market Place and Major Competitor

Without question, the consumer products market operates in a highly dynamic setting. Numerous massive players are engaged in a fierce fight for global market share. Proctor & Gamble, Johnson & Johnson, Nestle, Colgate Palmolive, Mondelez International, L'OREAL, and Edgewell Personal Care are some of the most well-known companies in the sector. They are all fierce Unilever rivals. Unilever, including Tyson Foods, JBS, Danone, Kimberly Clark, Kellogg, Henkel, Brasil Foods, and Estee Lauder, will have several more market brands in its



business strategy implementation. Nestlé, a multinational Swiss corporation, is a global pioneer in fast-moving consumer products (fast-moving consumer goods). Procter & Gamble is a close second. It is a global American corporation based in Ohio.

These two competitors are closely scrutinising Unilever. Apart from the market's larger competitors, Unilever competes with a slew of smaller competitors in a niche and exclusive commodity category. For example, in the United States and the European Union, companies like My/Mo and Salt & Straw are making significant inroads into the ice cream business, and their ice cream market shares are projected to influence Unilever's ice cream market shares. Unilever would not consider multinational companies to be formidable competitors. "We do not see Procter & Gamble as our biggest rival," Paul Polman, the company's then-CEO, said in a 2014 interview. He believes that the majority of foreign competitors, especially in emerging markets, are regional players. As a result, the company used risky acquisition strategies to fend off several smaller competitors, such as when it bought Qinyuan, a Chinese group, and Kalina, a Russian corporation, many years ago (Daneshkhu, 2014).

Similarly, it invests heavily in creativity to increase its market share and grow into new industries. Apart from acquisitions, Unilever works with competitors on several projects. The industry's two biggest rivals, for example, are Hindustan Unilever (Unilever's Indian subsidiary) and Tata Global Beverages. They do, however, cooperate to boost the livelihoods of India's thousands of small-scale tea farmers by developing new tea farming methods (Unilever, 2020).

Major Events

Unilever activities take place regularly. Being a multinational business can be fraught with events. However, majors who make an indelible imprint on the company's legacy are rare. The following are two significant current cases.

Senior management

Alan Jope succeeded Paul Polman as CEO in January 2019 (Malviya, 2017). The corporate director is Graeme Pitkethly, the chief financial officer. Jope's appointment as a joint executive officer would be proposed at Unilever's 2019 Annual General Meeting (Jope, 2019). Paul Polman previously worked as CEO for ten years, taking over in 2009 from Patrick Cescau. Nils



Andersen was named Chairman of Unilever in November 2019, succeeding Marijn Dekkers, who stepped down after three years.

Legal structure

Unilever is a division of Unilever PLC. It is headquartered in London's Unilever House and has its registered office in Port Sunlight, Merseyside. The company has undergone many restructurings, the most recent in 2018 and 2020 (Staff, 2020).

Part B

Financial analysis of Unilever

As mentioned in the introduction, this segment would discuss how performance ratios primarily determine Unilever's financial success. Several percentages are entirely dependent on the profits of various types of businesses. Profitability is the guiding principle upon which investors base their decisions. If the purchasers are satisfied, the private enterprise has accomplished its objective (Fraser, 1990). Ratio valuation plays a significant role in determining whether or not to participate in Unilever. The financial taxes, balance sheets, and cash flow statements would serve as the primary source of information for the assessment. Financial ratio analysis's crucial measures were accompanied. The chosen percentages were determined using benefit and loss accounts, equilibrium statements, and cash float statements. These could be analysed, and finally, a judgement could be formed based on the generated evidence. First of all, the emphasis should be on an immediate assessment of the market's functionality. Second, one can discuss performance, efficiency, and liquidity ratios. Thirdly, financing levels should be analysed in conjunction with an explanation of Unilever's dividend strategy. Eventually, gearing ratios would be addressed in comparison to the ratios dependent solely on the share charge. Regardless of the global slowdown at the end of 2020, revenues (ex VAT) continued to grow steadily, as shown in table 1. Customers would no longer limit the number of goods they purchase even though their prices are reduced (Mankiw, 2007). As a result, during a contraction, food, beverage, home treatment, and personal care have an extreme demand and do not suffer from losses.



Tab. 1 Sales, sales growth and market share of Unilever's (2015-2020)

Unilever	2016	2017	2018	2019	2020	Nestle 2020
Revenue	52,713	53,715	50,982	51,980	50,724	84,681
Revenue Growth (%)	-1.0%	1.9%	-5.1%	2.0%	-2.4%	-8,9%
Gross Profit	22,484	23,231	22,279	22,878	22,04	47,26
Operating Profit	7801	8957	12,639	8,708	8,303	16,429

Source: Annual Financial Reports of Unilever and Nestle

The gross Profit of Unilever PLC is 22.04 B, which is slightly below the interquartile range and hence is removed from the distribution. Unilever earned a total profit of €22.04 billion in the last twelve months. From fiscal years ending December 2016 to 2020, Unilever produced a median gross profit of €22.484 billion. Unilever's operating profit stood at €23.231 billion in January 2018 as viewed over the past five years. Gross profit at Unilever reached a five-year low of €22.04 billion in December 2020. Unilever's gross profit fell by 4.1 per cent in 2018 (22.279 billion, -4.1 per cent) and 3.7 per cent in 2020 (22.04 billion, -3.7 per cent), but rose by 0.1 per cent in 2016 (22.484 billion, +0.1 per cent), by 3.3 per cent in 2018 (23.231 billion, +3.3 per cent), and by 2.7 per cent in 2019 (22.878 billion, +2.7 per cent). Unilever's sales increase is -2.4 per cent for the last twelve months. From December 2016 to December 2020, Unilever's sales development averaged -0.9 per cent. All fiscal years ended in December 2016 and 2020, Unilever's sales development was a median of -1.0 per cent. Unilever's sales increase stood at 2.0 per cent in December 2019 compared to the previous five years. In December 2018, Unilever's sales development reached a five-year low of -5.1 per cent. Unilever's sales development was negative in 2016 (-1.0 percent, -110.5 percent), negative in 2018 (-5.1 percent, -367.7 percent), and negative in 2020 (-2.4 percent, -223.4 percent), but positive in 2018 (1.9 percent, -281.1 percent) and 2019. (2.0 percent , -138.5 percent). With grudgingly, Nestle has a higher gross margin and a higher operating profit than Unilever, allowing it to run at a lower expense.



Tab.2 Profitability ratios of Unilever (2016-2020)

Unilever	2016	2017	2018	2019	2020	Nestle 2020
Operating Margin	14.8	16.7	24.8	16.8	16.4	17.2
Gross profit Margin	42.7%	43.2%	43.7%	44.0%	43.5%	49.4%
ROCE (%)	22.6%	25.3%	23.5%	23.4%	20.6%	17.0%
Return on equity (%)	32.6%	40.4%	75.4%	45.8%	39.2%	25.0%

Source: Author's calculations and Annual Financial Reports of Unilever and Nestle

Profitability measures are essential to stockholders and management since they are derived mainly from the income statement. Equity investors want to know how effectively businesses use their capital while choosing where to spend their funds. When compared to Nestle, it seems that Nestle is more efficient than Unilever on all available profitability indices. Unilever's return on capital invested during the last twelve months is 20.6 per cent. Unilever's overall return on resources hired from December 2016 to 2020 was 23.1 per cent. From fiscal years ended in December 2016 to 2020, Unilever produced a median return on capital employed of 23.4 per cent. Unilever's return on resources employees stood at 25.3 per cent in January 2018 while looking back five years. Unilever's return on resources employed fell to a five-year low of 20.6 per cent in December 2020. Unilever's return on resources employed fell in 2016 (22.6 percent, -7.2 percent), 2018, (23.5 percent, -7.2 percent), 2019, and 2020 (20.6 percent, -12.0 percent), but rose in 2018 (25.3 percent, +11.9 percent). The gross profit margin declined dramatically from a value of 24.8 per cent in 2018. Since the gross profit margin remained almost flat, a reduction in operating costs resulted in this rise in 2018, followed by a rapid decline that lasted two years, demonstrating management inefficiency. Return on equity is a metric that indicates the rate of return on a shareholder's money.

Return on capital employed (ROCE) is a metric that indicates the productivity in which fresh capital is spent, and current capital generates benefit. Nestle's profitability level is somewhat better, allowing Unilever to earn a higher return on average capital employed.



Tab.3 Efficiency ratios of Unilever (2016-2020)

Unilever	2016	2017	2018	2019	2020	Nestle 2020
Asset Turnover	1.0	0.9	0.8	0.8	0.8	0.7
Return per employee	0.312	0.334	0.329	0.346	0.340	0.310

Source: Author's calculations and Annual Financial Reports of Unilever and Nestle

Unilever's asset turnover over the last twelve months is 0.8x. From December 2016 to December 2020, Unilever's asset turnover averaged 0.9x. From fiscal years ended in December 2016 to 2020, Unilever created a median asset turnover of 0.8x. Unilever's asset turnover stood at 1.0x in December 2016 while looking back five years. Unilever's asset turnover reached a five-year low of 0.8x in December 2020. Over the last five fiscal years, Unilever's asset turnover has declined, from 1.0x in 2016 to 0.8x in 2020. Nestle has a somewhat close-ratio, which makes sense given that they are in the same line of operation.

Tab.4 Liquidity ratios of Unilever (2016-2020)

Unilever	2016	2017	2018	2019	2020	Nestle 2020
Current Ratio	0.7	0.7	0.8	0.8	0.8	0.9
Quick Ratio	0.4	0.4	0.4	0.5	0.5	0.6

Source: Author's calculations and Annual Financial Reports of Unilever and Nestle

Liquidity ratios are used to analyse and assess a company's capacity to satisfy short-term obligations. Our group calculated current ratios, quick ratios, and cash ratios to determine how easily Unilever will turn its assets into cash. A robust current ratio means that the business has sufficient resources to satisfy short-term obligations. As we can see, current ratios from 2016 to 2020 are less than 1, but they have seen a consistent average annual increase of 0.05 per cent, and quick ratios have shown the same pattern. Quick ratios are often referred to as acid test ratios, as they are close to current ratios, but they reflect a more rigorous test of liquidity. Unilever's current ratio improved dramatically since 2016. Generally, a solid current ratio is recommended for a business since a higher current ratio indicates that the business is likely to remain more liquid. In 2019, the short ratio improved but then decreased to 0.5 in 2020. A quick ratio of 1.00 is preferred, and a higher quick ratio indicates that the business is liquid.



Quick ratios are about half of the current ratios, indicating that inventories accounted for a sizable portion of current assets.

Unilever's current ratio for the last twelve months is 0.8x. Unilever's current ratio ranged 0.7x from fiscal years ended in December 2016 through 2020. From fiscal years ended in December 2016 to 2020, Unilever maintained a median current ratio of 0.8x. Unilever's current level stood at 0.8x in December 2020, looking back five years. Unilever's existing level fell to a five-year low of 0.7x in December 2016. Unilever's current ratio rose from 0.7x in 2016 to 0.8x in 2020 in each of the last five fiscal years. Nestle controls approximately two-thirds of both current assets and liabilities, but the figures are comparable, and thus the ratio closely resembles the Unilever ratio.

Tab.5 Investment ratios of Unilever (2016-2020)

Unilever	2016	2017	2018	2019	2020	Nestle 2020
Basic earnings per Share	1.83	2.16	3.50	2.15	2.13	4.30
Dividend per Share	1.22	1.37	1.48	1.67	1.63	4.36
Dividend cover	2.0	2.0	1.8	1.9	2.1	1.9

Source: Author's calculations and Annual Financial Reports of Unilever and Nestle

Unilever's earnings per share were around a third smaller than that of Nestle. This is due to lower operating margins. Unilever's payout distribution level for the last twelve months is 2.1x. Unilever's dividend payout level averaged 2.0x from fiscal years ended in December 2016 through 2020. From 2016 to 2020, Unilever's fiscal years ended in December had a cumulative dividend payout level of 2.0x. Unilever's dividend payout level stood at 2.1x in December 2020, looking back five years. Unilever's dividend payout level fell to 1.8x in December 2018, a five-year low. Dividend coverage ratios for Unilever declined in 2016 (2.0x, -11.3 percent) and 2018 (1.8x, -10.5 percent) before rising in 2018 (2.0x, +3.0 percent), 2019 (1.9x, +7.0 percent), and 2020 (2.1x, +9.9 percent).



Tab.6 Gearing and investment ratios of Unilever (2016-2020)

Unilever	2016	2017	2018	2019	2020	Nestle 2020
Gearing Ratio (%)	80.79%	151.57%	183.75%	164.49%	127.39%	68.5%
Interest Cover	13.5	13.5	12.8	13.1	13.7	17.5

Source: Author's calculations and Annual Financial Reports of Unilever and Nestle

The gearing ratio expresses the relationship between an organization's responsibility and fairness. Gearing ratios signify the degree to which lenders finance a business's activities rather than shareholders; they reflect a business's financial leverage; a high gearing ratio indicates a high debt-to-equity level, while a low gearing ratio indicates the opposite. As shown, gearing has increased significantly over the last five years, owing to an increase in lender contributions in most situations. Nestle's gearing ratio increased to 68.5%. A decline in 2020 is desirable due to a strong balance sheet. Between 2017 and 2019, Unilever's internet debt was gradually reduced. Unilever's interest coverage level for the last twelve months is 13.7x. Unilever's interest coverage level ranged 13.3x from fiscal years ended in December 2016 through 2020. From fiscal years ended in December 2016 to 2020, Unilever maintained a cumulative debt coverage level of 13.5x. Unilever's interest coverage level stood at 13.7x in December 2020, looking back five years. Unilever's interest coverage level fell to a five-year low of 12.8x in December 2018. Unilever's interest coverage ratio declined to 12.8x (-5.5 percent) in 2018 from 13.5x (-0.6 percent) in 2016, 13.5x (-0.3 percent) in 2018, 13.5x (-0.3 percent) in 2019, 13.1x (-2.7 percent), and 13.7x (-4.7 percent) in 2020.

Tab.7 Ratios based on share price (2020)

	Unilever	Nestle
P/E	22.9	25.1
Dividend yield	3.2%	3.7%

Source: Author's calculations and Annual Financial Reports of Unilever and Nestle

The P/E ratio shows the profit multiple that buyers are prepared to pay for a single share of stock. PE Multiples are commonly employed in operation despite their significant disadvantages.



Unilever's most recent twelve-month price-to-earnings figure is 22.7x. Looking back at the last five years, Unilever's price-to-earnings ratio stood at 22.7x in December 2020. Unilever's price-to-earnings ratio fell to a five-year low of 16.0x in December 2018. The p/e ratio of Unilever declined in 2016 (21.8x, -7.0 percent), 2018 (21.8x, -0.1 percent), and 2018 (16.0x, -26.7 percent), but improved in 2019 (18.1x, +13.4 percent), and 2020 (22.7x, +25.1 percent). Nestlé's most recent twelve-month price-to-earnings ratio is 25.1x. In 2020, Nestle had the lowest level relative to Unilever, while Unilever had the best level in the last five years. Nestlé's price-to-earnings ratio fell to a five-year low of 25.1x in December 2020. Nestlé's price-to-earnings ratio fell in 2018 (26.8x, -14.8%) and 2020 (25.1x, -9.3%), but improved in 2016 (25.6x, +25.9 percent), 2017 (31.5x, +23.1 percent), and 2019 (27.6x, +3.0%). The dividend yield is a term that refers to the percentage return on investment that a business offers to shareholders in the form of dividends. Older firms typically have a higher dividend yield and have a more stable dividend background than younger companies.

Part C

Payback Period (PBP)

Thanks to its simplicity of calculation and use, the Payback Period approach to capital expenditure appraisal is commonly used. It allows the use of fair and unbiased cash flows. It ultimately shows that the investment alternative is the least risky in the time taken to recoup the initial investment. The premise is that the longer it takes to recoup the original investment, the more often it will never be recouped. As (Woodruff, 2017) states, however, the Payback Period does not account for the time value of money.

Additionally, it ignores expected capital inflows until the original investment is recouped. Extensive infrastructure investments usually have a longer lifecycle, with a high probability of attracting significant inflows early in the project's existence. Furthermore, depending on the nature of the project, most inflows will arise after the Payback Period. Consequently, depending solely on the Payback Period can result in poor investment decisions due to a disregard for long-term profitability. Additionally, the payback period is most successful when used in conjunction with other valuation techniques. This is the most uncomplicated investment valuation strategy since the original capital outflow is supposed to be offset by the investment's cash inflow (Accounting, 2012).



Tab. 1 Payback Period (A)

Year	Cash Flow (A)	Cumulative Cash Flow (A)
0	-80	-80
1	25	-55
2	25	-30
3	20	-10
4	45	

Source: Author's calculations

PBP is therefore $3 \text{ years} + \frac{10}{45} = 3.2 \text{ years}$, implying that the corporation would spend 3 "full years" and a portion of year four to breakeven (get back the original capital invested). PBP is more concerned with risk control than with maximising returns.

Tab. 2 Payback Period (B)

Year	Cash Flow (B)	Cumulative Cash Flow (B)
0	-75	-75
1	50	-25
2	20	-5
3	20	
4	10	

Source: Author's calculations

PBP is therefore $2 \text{ years} + \frac{5}{20} = 2.2 \text{ years}$.

As can be seen from the responses, B is superior dependent on PBP (shorter payback period). The overall financial goal of corporate financial decision-making is to maximise shareholder equity, and we equate the two situations, we see that case B is more beneficial to shareholders.



Advantages of Payback Period

It Is a Straightforward Process: One of the primary benefits of the payback period approach is its convenience. The decision may be as simple as choosing the one that will yield the highest rate of return.

Fewer Numbers to Crunch: The payback period approach automatically applies to all aspects of the equation. Management would not be required to do any complex accounting or math to budget with this process.

Increase Earnings Reinvestment: If a company is trying to recoup its savings to continue reinvesting and expanding, this approach will expedite the process.

Disadvantages of Payback Period

Only Considers Payback Period: The payback period process only considers cash flow over a specified period. After the original expenditure is repaid, the return on investment would not be included in these scores.

Budgets That Are Naturally Short-Term Oriented: Payback time ratings are based only on the original return on expenditure. This is ideal for any company trying to spend, recoup, and reinvest as quickly as possible.

It Ignores Time Value of Investments: Money's value will fluctuate over time, perhaps more so when it comes to stable, long-term assets. A dollar spent today would not be worth the same as one.

Accounting Rate of Return (ARR)

The estimated rate of return quantifies the projected annual cash flow produced by an investment for its lifetime (Explained, 2012). The cumulative accounting value is calculated concerning the annual average spending. It is a technique utilised in the assessment of investments.



Tab. 3 Accounting Rate of Return (A)

Year	Cash Flow (A)
0	-80
1	25
2	25
3	20
4	45

Source: Author's calculations

Total cash inflows: $25+25+20+45=115$
Total machine cost: 80
Total profit: $115-80=35$
Average annual profit: 35

Average capital employed: $(80+35)/2=57.5$
ARR (ROCE): Approach 1 $35/57.5=0.152$

Initial capital employed: 80
ARR (ROCE): Approach 2 $35/80=0.109$

Tab.4 Accounting Rate of Return (B)

Year	Cash Flow (B)
0	-75
1	50
2	20
3	20
4	10

Source: Author's calculations

Total cash inflows: $50+20+20+10=100$
Total machine cost: 75
Total profit: $100-75=25$
Average annual profit: 25

Average capital employed: $(75+25)/2=50$
ARR (ROCE): Approach 1 $25/50=0.5$

Initial capital employed: 75
ARR (ROCE): Approach 2 $25/75=0.083$



Advantages and Disadvantages of Accounting Rate of Return

Advantages	Disadvantages
1. This is a simple strategy that quickly determines the return on investment by using the profits from spending.	1. This method is entirely based on accounting revenue and makes little allowance for cash inflows, royalties, or other expenditures.
2. Calculating and comprehending the payback curve throughout the project's economic life is easy.	2. One of the key disadvantages of this solution is how little time is allowed. Capital's time worth is essential in assessing an investment's feasibility.
3. The majority of first-time buyers would use this strategy to test their purchase choices.	3. External factors are not taken into account during this phase, and the results differ when the same plan is analysed using the return on investment tool. As a consequence, it is incompatible with large-scale and long-term endeavours.

The Net Present Value (NPV)

The net present value approach is a commonly employed technique for capital expenditure valuation. According to (Azeez, 2015), since discounted cash flows are used, this approach essentially calculates the investment's actual worth. The critical aspect of this approach is that it assists in assessing the feasibility of a project before its commencement, thus creating a foundation for making an investment judgement, at least in part. However, the NPV approach has a disadvantage in that it lacks non-monetary considerations. "The NPV approach is appropriate for idealised programmes that prioritise principles or resources." For NPV to be applicable, the reinvestment rate must be equal to the industry's opportunity cost. The reinvestment rate in this situation will be the discount rate, which refers to the opportunity cost of the owners/investors. The discount rate is seen as the cost of money, which equates to the owners'/investors' opportunity cost. Since the metric is valid when combined with other approaches that consider considerations such as performance and yield, it is a valuable measure of a project's probability of completion. Given that NPV quantifies the importance of an investment rather than its yield usefulness, it makes sense to employ another metric that quantifies both to gain a complete understanding of the variables affecting the investment decision. It enables managers to forecast the gains and risks of potential capital inflows and



outflows by applying the time value of capital to future cash inflows and outflows (AccountingExplained, 2012). The company's projects and choices are often made with a good net present value in mind.

Tab. 5 The Net Present Value (A)

Year	Cash Flow (A)		PV (A)
0	-80		-80
1	25		24
2	25		24
3	20		19
4	45		43

Source: Author's calculations

NPV for project A: $-80+24+24+19+43=30$

Tab.6 The Net Present Value (B)

Year	Cash Flow (B)		PV (B)
0	-75		-75
1	50		49
2	20		19
3	20		19
4	10		9

Source: Author's calculations

NPV for project B: $-75+49+19+19+9=21$

NPV, A is superior (a high NPV indicates that the firm will generate more value for its owners by pursuing project A). Corporate financial decision-making's financial goal is to



maximise shareholder equity. In this situation, NPV is a superior metric, academically speaking, instead of other financial metrics.

Advantages of The Net Present Value

The primary characteristic of the net present value approach is that it is predicated on the premise that potential dollars are less expensive than current bank dollars. Future cash flows are discounted to the current to determine their value. The NPV method creates a dollar amount representing the benefit generated by the project for the company. Stockholders can quickly realise the value addition that investment will make to their net worth. The net present value is determined using the discount rate associated with the company's cost of the stock. This is the rate of return that shareholders are entitled to receive on their investment in the company.

Disadvantages of The Net Present Value

The primary disadvantage of NPV research is that it involves forecasting potential cash flows and predicting the cost of capital for the company. When comparing ventures of varying investment rates, the NPV approach is inapplicable. Although a more giant, more expensive project should have a higher net present value, this does not always mean a more substantial investment than a smaller one. Frequently, a company must take into account additional qualitative factors.



Conclusion

In conclusion, we can confirm that, following this report, we can say that Unilever is a company worth investing in. Unilever is one of the top five securities to purchase and retain in perpetuity (long-term). Since about 60% of Unilever's sales come from developing markets, the company ensures a promising future when living standards begin to climb. For almost 25 years, the firm has increased its payout annually, and it now yields 4.0 per cent. Additionally, investors can accumulate in and hold Unilever stock for the long term due to the company's position as the world's largest consumer goods company with a sizable footprint in emerging markets. Around 60% of these markets, including China, India, Southeast Asia, and Africa, are dominated by the group. Simultaneously, the company's income is projected to increase at an unprecedented pace until 2020, and the company has a sizable cash flow buffer to invest in its expansion targets. Even though the financial reports have shown that Nestle has a more remarkable influence on the market, having some much more gratifying figures, all Unilever is a company that deserves any money.



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