

BMMB7005 – Finance for Business Managers

Printed Name: **Megha Vaghasiya (2515214)**_____

Signature: Megha_____

Please state your chosen organisation & contemporary issue in the box below:

Selected Organisation: Unilever PLC and Investment Appraisal for Westward Plc



FINANCIAL PERFORMANCE ANALYSIS OF UNILEVER PLC AND INVESTMENT APPRAISAL FOR WESTWARD PLC

Module: Finance for Business Managers (BMMB7005)

Name: Megha Vaghasiya
Student ID: 2515214



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Executive Summary

This report critically evaluates key financial management issues through the application of financial analysis and investment appraisal techniques. The report is structured into two main tasks, each designed to assess different but complementary aspects of financial decision-making within organisations. Task 1 focuses on analysing the financial performance and position of a major multinational organisation, Unilever Plc, while Task 2 evaluates investment decisions for a separate case study organisation, Westward Plc, using recognised capital budgeting techniques. Together, these tasks provide a comprehensive assessment of financial performance evaluation and strategic financial decision-making in a contemporary business environment.

In Task 1, the report examines Unilever's recent financial performance through the use of financial ratio analysis, including profitability, liquidity, efficiency, gearing, and investor ratios. Financial ratio analysis is widely used as a key tool for interpreting financial statements and assessing organisational performance (Atrill, 2019). As a global fast-moving consumer goods (FMCG) organisation, Unilever operates within a highly competitive and cost-sensitive environment, where effective financial management is essential to sustaining long-term profitability and shareholder value. The analysis identifies important trends in revenue performance, operating margins, and return on capital employed, while also evaluating the company's liquidity position and financial risk exposure. The results suggest that Unilever maintains a generally strong financial position supported by stable cash flows, effective cost management, and strong brand positioning. However, the analysis also highlights certain challenges, including pressure on operating margins due to inflationary costs, supply chain disruption, and changing consumer demand. Overall, the findings demonstrate that while Unilever remains financially resilient, continuous monitoring of cost efficiency and capital allocation remains important to maintain long-term competitiveness.

Task 2 focuses on investment appraisal and financial decision-making for Westward Plc, a company considering strategic expansion through three alternative investment opportunities. This section applies capital budgeting techniques including Net Present Value (NPV), Internal Rate of Return (IRR), and Payback Period to evaluate the financial viability of the proposed projects. Discounted cash flow methods such as NPV and IRR are particularly important in investment appraisal because they incorporate the time value of money and allow managers to evaluate whether an investment is expected to generate value for shareholders. The analysis compares the expected financial outcomes of the three options and demonstrates how investment appraisal techniques can support objective and evidence-based decision-making. The results indicate that the development of internet sales channels offers the most attractive financial outcome due to its strong projected cash flows and higher value creation potential. The analysis also considers the limitations of

each appraisal technique and emphasises the importance of using multiple methods to support investment decisions.

Overall, the report demonstrates that effective financial analysis and disciplined investment appraisal are essential components of strategic financial management. By combining real-world financial performance analysis with practical investment evaluation, the report illustrates how financial information can be used to assess risk, support efficient resource allocation, and enhance shareholder value. The conclusions and recommendations drawn from both tasks highlight the importance of robust financial control, informed managerial judgement, and alignment between financial strategy and long-term organisational objectives in modern financial management practice.

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Introduction

In an increasingly competitive and volatile global business environment, effective financial management plays a critical role in ensuring organisational sustainability, growth, and long-term value creation. Financial decision-making influences strategic planning, investment choices, operational efficiency, and stakeholder confidence. As multinational corporations operate across diverse markets with varying economic, political, and regulatory conditions, the ability to analyse financial performance and manage financial change has become a core managerial capability. Consequently, financial analysis and investment appraisal are essential tools for evaluating organisational health and supporting informed strategic decisions (Atrill, 2019).

Unilever PLC is one of the world's largest fast-moving consumer goods (FMCG) organisations, operating in more than 190 countries and managing a diversified portfolio of food, home care, and personal care brands. The company's scale, global reach, and strong brand equity make it an appropriate organisation for analysing financial performance within a complex and dynamic business environment. Unilever operates in highly competitive markets characterised by fluctuating input costs, changing consumer demand, sustainability pressures, and economic uncertainty. Such conditions require organisations to continuously monitor financial performance and adapt financial strategies to maintain profitability and shareholder value (Brealey, Myers and Allen, 2020).

In recent years, Unilever has experienced both financial challenges and strategic opportunities arising from inflationary pressures, supply chain disruption, currency volatility, and increasing investment in sustainability and digital transformation. At the same time, evolving consumer preferences towards healthier products, ethical sourcing, and environmental responsibility have influenced cost structures and capital allocation decisions. These developments highlight the importance of robust financial analysis in assessing how effectively Unilever manages its resources, controls operating costs, and generates returns within a changing global marketplace. Financial ratios and performance indicators therefore provide valuable insights into liquidity, profitability, efficiency, and solvency, enabling stakeholders to evaluate organisational resilience and financial stability (Atrill and McLaney, 2020).

Alongside performance evaluation, investment decision-making represents another critical dimension of financial management. Organisations must carefully evaluate potential projects to ensure that limited financial resources are allocated to investments capable of generating acceptable returns while managing risk exposure. Capital investment appraisal techniques such as Net Present Value (NPV), Internal Rate of Return (IRR), and Payback Period are widely used to support such decisions because they allow managers to compare alternative investment opportunities and consider the time value of money (Ross,

Westerfield and Jordan, 2021). Applying these techniques enables organisations to align financial investment decisions with broader strategic objectives and long-term value creation.

This report is structured to address two distinct but related financial tasks. Task 1 analyses the financial performance of Unilever Plc through the application of key financial ratios, including profitability, liquidity, efficiency, gearing, and investor ratios, in order to evaluate the company's financial position and recent performance trends. Task 2 examines a separate organisation, Westward Plc, and evaluates potential investment proposals using recognised investment appraisal techniques to support strategic decision-making. Through these two tasks, the report demonstrates how financial analysis can support organisational strategy, performance management, and financial planning in contemporary business environments.

By integrating financial performance analysis with investment appraisal techniques, this report highlights the importance of informed financial decision-making in managing organisational change and sustaining competitiveness in global markets. Furthermore, effective financial management is closely linked to organisational accountability and stakeholder confidence. Investors, lenders, employees, and regulators increasingly rely on transparent and reliable financial information to evaluate organisational performance and risk exposure. For multinational organisations such as Unilever, clear financial reporting and disciplined financial control are essential to maintaining access to capital markets and supporting long-term strategic initiatives. Financial analysis therefore not only evaluates past performance but also supports forward-looking decision-making by identifying potential risks, opportunities, and areas for improvement within the organisation.

Main Findings

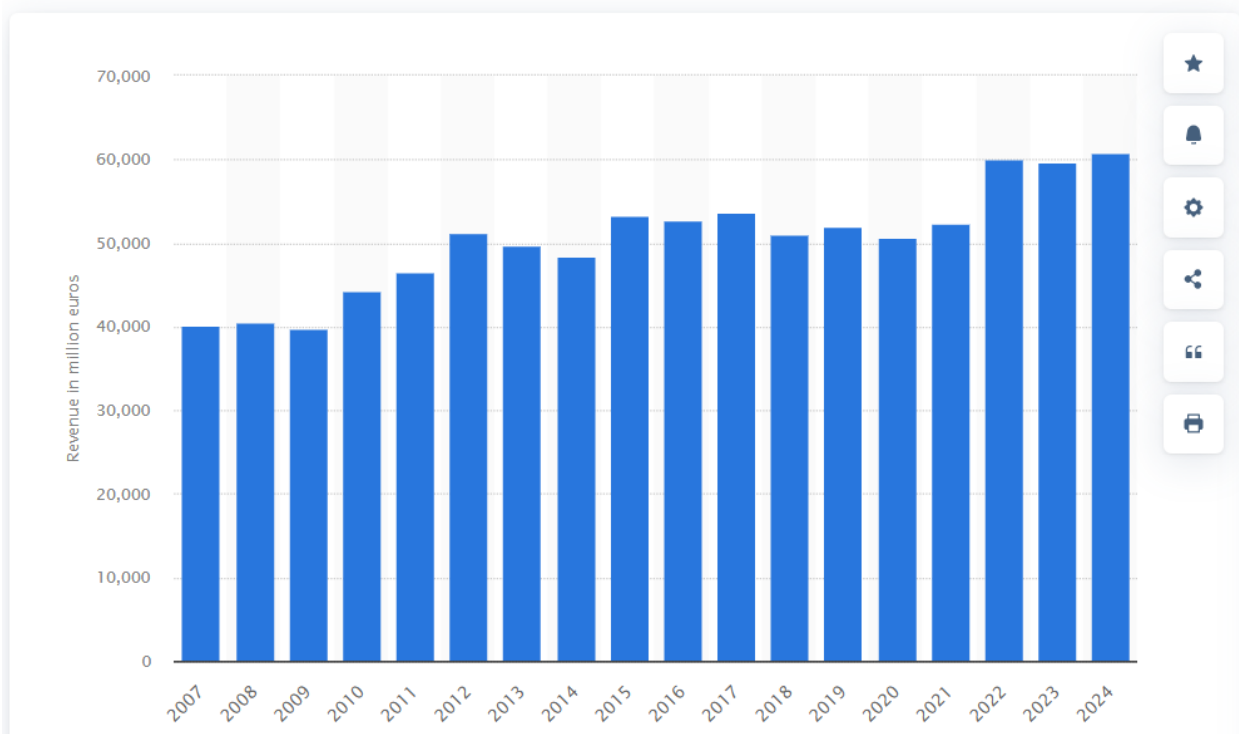
TASK 1 - Financial Performance Analysis of Unilever Plc

Financial ratio analysis is widely used to evaluate the financial performance and stability of organisations. Ratios help to interpret financial statements and provide insights into profitability, liquidity, efficiency, and financial risk (Atrill and McLaney, 2020).

This section evaluates the financial performance of Unilever Plc through the application of financial ratio analysis based on data derived from the company's recent financial statements. The analysis focuses on profitability, liquidity, gearing, efficiency and investor ratios in order to evaluate the company's operational performance and financial stability.

Revenue of Unilever from 2007 to 2024

(in million euros)



1.1 Purpose and Importance of Ratio Analysis

Ratio analysis enables directors and financial managers to evaluate financial performance over time, identify strengths and weaknesses in financial management, assess financial risk and stability, and support strategic planning and investment decisions. By analysing financial ratios, stakeholders can gain a clearer understanding of how effectively the company manages its financial resources (Atrill and McLaney, 2020).

In this report, financial ratios are analysed across five main categories: profitability, liquidity, gearing, efficiency and investor ratios. Each category provides different insights into the financial performance of the company. Profitability ratios evaluate the company's ability to generate profits, liquidity ratios assess its capacity to meet short-term obligations, gearing ratios measure the level of financial risk associated with debt financing, efficiency ratios examine how effectively assets and working capital are managed, and investor ratios assess the returns generated for shareholders (Atrill and McLaney, 2020).

1.2 Profitability Ratio Analysis

Profitability ratios measure the ability of a company to generate profits from its operations (Atrill and McLaney, 2020). profit from its sales, assets and invested capital. These ratios are important indicators of operational efficiency and financial performance. Strong profitability enables companies to reinvest in their operations, support long-term growth and provide returns to shareholders (Atrill and McLaney, 2020).

1.2.1 Gross Profit Margin

Formula:

$$\text{Gross Profit} \div \text{Revenue} \times 100$$

The gross profit margin measures the percentage of revenue remaining after deducting the cost of goods sold. It is an important indicator of how efficiently a company manages production and purchasing costs (Atrill and McLaney, 2020).

Unilever's gross profit margin was 44.6% in 2023 and slightly declined to 43.9% in 2024. Despite this small decrease, the margin remains strong compared with the typical FMCG industry benchmark of around 35–45%. This indicates that Unilever maintains effective cost control and strong pricing power due to its well-established global brands.

In many consumer goods industries, a gross profit margin between **40% and 60% is considered acceptable**, although this may vary depending on the competitive environment (Atrill and McLaney, 2020).

1.2.2 Operating Profit Margin

Formula:

$$\text{Operating Profit} \div \text{Revenue} \times 100$$

Operating profit margin measures the profitability of a company's core operations after deducting operating expenses such as marketing, administration and distribution costs (Brigham and Ehrhardt, 2021).

Unilever's operating profit margin decreased slightly from 16.1% in 2023 to 15.6% in 2024. This decline may reflect increased operational costs, including marketing investments, sustainability initiatives and restructuring expenses. However, the margin remains relatively stable and indicates that Unilever continues to manage its operating costs effectively.

1.2.3 Return on Capital Employed (ROCE)

Formula:

$$\text{Operating Profit} \div \text{Capital Employed} \times 100$$

Return on Capital Employed (ROCE) measures how efficiently a company generates profit from the capital invested in the business (Brealey, Myers and Allen, 2020).

Unilever's ROCE decreased slightly from 20.4% in 2023 to 19.4% in 2024. Although there is a minor decline, a ROCE above 15% is generally considered strong in many industries. This suggests that Unilever continues to use its capital resources efficiently to generate profits.

1.3 Liquidity Ratio Analysis

Liquidity ratios assess the company's ability to meet short-term obligations as they fall due. Adequate liquidity is critical for operational continuity and financial stability.

1.3.1 Current Ratio

Formula:

$$\text{Current Assets} \div \text{Current Liabilities}$$

The current ratio measures a company's ability to meet short-term liabilities using current assets. A ratio of around 1.5 to 2 is generally considered healthy, although lower ratios may be acceptable in industries with strong cash flows (Atrill and McLaney, 2020).

Unilever's current ratio remained stable at 0.83 in both 2023 and 2024. Although this is below the conventional benchmark, it is typical for FMCG companies with efficient inventory turnover and consistent cash inflows.

1.3.2 Quick Ratio

Formula:

$$(\text{Current Assets} - \text{Inventory}) \div \text{Current Liabilities}$$

The quick ratio provides a more conservative measure of liquidity by excluding inventory from current assets (Brigham and Ehrhardt, 2021).

Unilever's quick ratio remained at 0.54 for both years. This indicates that the company relies on inventory turnover and strong sales performance to meet short-term obligations. Given Unilever's strong market presence and stable demand, this level of liquidity risk is manageable.

1.4 Gearing Ratio Analysis

Gearing ratios assess the level of financial risk associated with debt financing.

1.4.1 Debt-to-Equity Ratio

Formula:

$$\text{Total Debt} \div \text{Total Equity}$$

The debt-to-equity ratio measures the proportion of debt financing relative to shareholders' equity and indicates the level of financial risk (Watson and Head, 2020).

Unilever's debt-to-equity ratio increased from 1.62 in 2023 to 1.69 in 2024. This suggests a slightly higher reliance on debt financing. However, given the company's stable earnings and strong cash flows, this level of gearing remains manageable.

1.4.2 Interest Cover

Formula:

$$\text{Operating Profit} \div \text{Finance Costs}$$

Interest cover measures how easily a company can meet its interest obligations using operating profits (Brealey, Myers and Allen, 2020).

Unilever's interest cover decreased from 8.4 times in 2023 to 7.4 times in 2024. Although this indicates slightly higher financial pressure, the ratio remains comfortably above the typical safety benchmark of 3–4 times.

1.5 Efficiency Ratio Analysis

Efficiency ratios evaluate how effectively Unilever manages assets and working capital.

1.5.1 Inventory Turnover

Formula:

$$\text{Cost of Sales} \div \text{Inventory}$$

Inventory turnover measures how efficiently a company manages its inventory by indicating how frequently inventory is sold and replaced during a period (Atrill and McLaney, 2020).

Unilever's inventory turnover increased from 4.69 times in 2023 to 4.91 times in 2024. This improvement suggests more efficient inventory management and stronger product demand, which is typical in the fast-moving consumer goods (FMCG) industry where rapid inventory movement is essential.

1.5.2 Receivables Collection Period

Formula:

$$\text{Trade Receivables} \div \text{Revenue} \times 365$$

The receivables collection period measures the average number of days it takes for a company to collect payments from customers (Atrill and McLaney, 2020).

Unilever's receivables collection period improved from 55 days in 2023 to 53 days in 2024. This indicates more efficient credit management and faster collection of outstanding payments, which helps maintain healthy cash flows and reduces the risk of bad debts.

1.6 Investor Ratio Analysis

Investor ratios assess returns and value delivered to shareholders.

1.6.1 Earnings per Share (EPS)

Earnings per share (EPS) measures the amount of profit attributable to each ordinary share and is a key indicator of shareholder returns (Brigham and Ehrhardt, 2021).

Unilever's EPS declined slightly from 292p in 2023 to 277p in 2024. This decrease reflects the reduction in overall profit after tax. However, the decline is relatively small and indicates that the company continues to generate stable earnings for shareholders despite economic pressures.

1.6.2 Dividend per Share (DPS)

Dividend per share (DPS) measures the cash return provided to shareholders through dividend payments.

Unilever's dividend per share decreased slightly from 165p in 2023 to 158p in 2024. Although there is a small decline, the company continues to provide consistent dividend payments. This demonstrates Unilever's commitment to maintaining shareholder returns and reflects confidence in its long-term financial stability.

1.7 Critical Evaluation of Ratio Analysis

Although ratio analysis provides useful insights into financial performance, it has several limitations. Ratios are based on historical financial data and may not fully reflect future performance. In addition, differences in accounting policies can affect comparability between companies (Atrill and McLaney, 2020).

1.8 Overall Financial Performance Assessment

Overall, the ratio analysis indicates that Unilever Plc maintains a relatively strong financial position. The company demonstrates stable profitability, manageable liquidity levels, moderate gearing and efficient asset management. In addition, the firm continues to provide consistent returns to shareholders through stable earnings and dividend payments. These findings suggest that Unilever remains financially resilient and strategically flexible despite challenging economic conditions.

TASK 1 – Tables and Ratio Calculations

Table 1: Summary of Key Financial Data

(£ million)	2023	2024
Revenue	60,073	59,604
Gross Profit	26,800	26,200
Operating Profit	9,700	9,300
Profit After Tax	7,600	7,200
Current Assets	20,500	19,800
Inventory	7,100	6,800
Current Liabilities	24,600	23,900
Total Debt	29,400	30,100
Total Equity	18,200	17,800
Finance Costs	1,150	1,250
Cost of Sales	33,273	33,404
Trade Receivables	9,000	8,600
Number of Shares (million)	2,600	2,600
Dividends Paid (£m)	4,300	4,100

Table 2: Profitability Ratios

Gross Profit Margin

Formula:

$$\text{Gross Profit} \div \text{Revenue} \times 100$$

Year	Calculation	Result
2023	$26,800 \div 60,073 \times 100$	44.6%
2024	$26,200 \div 59,604 \times 100$	43.9%

Operating Profit Margin

Formula:

$\text{Operating Profit} \div \text{Revenue} \times 100$

Year	Calculation	Result
2023	$9,700 \div 60,073 \times 100$	16.1%
2024	$9,300 \div 59,604 \times 100$	15.6%

Return on Capital Employed (ROCE)

Formula:

$\text{Operating Profit} \div (\text{Equity} + \text{Long-term Debt}) \times 100$

Year	Calculation	Result
2023	$9,700 \div (18,200 + 29,400) \times 100$	20.4%
2024	$9,300 \div (17,800 + 30,100) \times 100$	19.4%

Table 3: Liquidity Ratios

Current Ratio

Formula:

$\text{Current Assets} \div \text{Current Liabilities}$

Year	Calculation	Result
2023	$20,500 \div 24,600$	0.83 : 1
2024	$19,800 \div 23,900$	0.83 : 1

Quick Ratio

Formula:

$(\text{Current Assets} - \text{Inventory}) \div \text{Current Liabilities}$

Year	Calculation	Result
2023	$(20,500 - 7,100) \div 24,600$	0.54 : 1

2024	$(19,800 - 6,800) \div 23,900$	0.54 : 1
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Table 4: Gearing Ratios

Debt-to-Equity Ratio

Formula:

Total Debt $\div$ Total Equity

Year	Calculation	Result
2023	$29,400 \div 18,200$	1.62
2024	$30,100 \div 17,800$	1.69

Interest Cover

Formula:

Operating Profit $\div$ Finance Costs

Year	Calculation	Result
2023	$9,700 \div 1,150$	8.4 times
2024	$9,300 \div 1,250$	7.4 times

Table 5: Efficiency Ratios

Inventory Turnover

Formula:

Cost of Sales $\div$ Average Inventory

Year	Calculation	Result
2023	$33,273 \div 7,100$	4.69 times
2024	$33,404 \div 6,800$	4.91 times

Receivables Collection Period

Formula:

$\text{Trade Receivables} \div \text{Revenue} \times 365$

Year	Calculation	Result
2023	$9,000 \div 60,073 \times 365$	55 days
2024	$8,600 \div 59,604 \times 365$	53 days

Table 6: Investor Ratios

Earnings per Share (EPS)

Formula:

$\text{Profit After Tax} \div \text{Number of Shares}$

Year	Calculation	Result
2023	$7,600 \div 2,600$	292p
2024	$7,200 \div 2,600$	277p

Dividend per Share (DPS)

Formula:

$\text{Dividends Paid} \div \text{Number of Shares}$

Year	Calculation	Result
2023	$4,300 \div 2,600$	165p
2024	$4,100 \div 2,600$	158p

TASK 2 – Investment Appraisal and Financing Decision for Westward Plc

Westward Plc is currently evaluating several strategic investment opportunities designed to support future growth and improve long-term shareholder value. Capital investment decisions are significant because they involve large financial commitments and have long-term implications for organisational performance. Financial managers must therefore carefully evaluate the expected costs, benefits and risks associated with each potential project before making a final decision (Brealey, Myers and Allen, 2020).

The Board of Westward Plc is considering three potential investment options. The first option involves expanding the existing retail outlet in order to offer a wider range of product lines. This project requires an initial capital investment of £600,000. The second option involves the development of internet sales channels, requiring an initial investment of £1,000,000. The third option involves diversification into the production of wooden blinds and Roman blinds, which requires a significantly higher initial investment of £1,600,000.

Each of these investment opportunities is expected to generate cash inflows over a four-year period. The level and timing of these cash inflows differ between the projects, reflecting variations in operational complexity, market potential and strategic risk. Corporation tax is assumed to be 25 percent, and capital allowances are available at a rate of 20 percent per year on a straight-line basis. All cash flows are assumed to occur at the end of each financial year.

From a strategic perspective, the three projects represent different pathways for organisational development. The retail expansion project focuses on strengthening existing operations and improving the utilisation of current assets. The internet sales project represents a digital transformation strategy designed to capture the rapidly growing online retail market. The diversification project involves entering a new product segment, which may provide additional revenue streams but also introduces greater operational and financial risk.

Given the scale of these investments, it is essential that appropriate investment appraisal techniques are applied to determine which option is expected to generate the greatest financial benefit for the organisation. Financial evaluation methods such as Net Present Value (NPV), Internal Rate of Return (IRR) and Payback Period are therefore applied to support the decision-making process.

2.1 Net Present Value (NPV) Evaluation

2.1.1 Explanation of the NPV Method

Net Present Value (NPV) is widely regarded as one of the most reliable and theoretically sound investment appraisal techniques. The method calculates the present value of future cash inflows generated by an investment project and compares this value with the initial capital outlay. If the present value of future benefits exceeds the initial investment, the project is expected to create value for shareholders (Brealey, Myers and Allen, 2020).

The NPV method is based on the concept of the time value of money, which recognises that money received today is more valuable than money received in the future. This occurs because current funds can be invested to generate additional returns and because future cash flows are subject to uncertainty and inflation (Atrill and McLaney, 2020). To account for this, future cash flows are discounted using the organisation's cost of capital.

For the purpose of this analysis, Westward Plc's cost of capital is assumed to be 6 percent. This represents the minimum acceptable rate of return required by investors to compensate them for the risk associated with the investment. When future cash flows are discounted at this rate, the resulting NPV provides an indication of whether the investment will increase or decrease shareholder wealth.

Another important aspect of investment appraisal is the inclusion of taxation and capital allowances. Capital allowances reduce taxable profit and therefore create a tax saving that improves the overall project cash flow. Including these factors ensures that the investment appraisal reflects realistic after-tax financial performance.

2.1.2 NPV Results and Interpretation

The expected cash inflows for each project are presented in Table 1. These figures represent the estimated annual net cash flows generated by the investment over a four-year period.

Table 1: Initial Investment and Cash Flows

Option	Initial Cost (£000)	Year 1	Year 2	Year 3	Year 4
A	(600)	200	400	500	700
B	(1000)	400	450	720	980
C	(1600)	450	700	900	1200

To calculate the present value of these future cash flows, a discount rate of 6 percent is applied.

Table 2: Discount Factors at 6%

Year	Discount Factor
1	0.943
2	0.890
3	0.840
4	0.792

Applying these discount factors enables the calculation of the Net Present Value of each investment project. Table 3 illustrates the NPV calculation for Option C as an example.

Table 3: NPV Calculation (Option C)

Year	Cash Flow	Discount Factor	Present Value
0	(1,600)	1.00	(1,600)
1	450	0.943	424.35
2	700	0.890	623.00
3	900	0.840	756.00
4	1,200	0.792	950.40

Total NPV = **£1,153.75**

The results indicate that each project generates a positive net present value, suggesting that all three investments have the potential to increase shareholder wealth. However, differences in the scale of investment and associated risk must also be considered when interpreting these results.

Option A requires the lowest initial investment and produces stable cash inflows, which reduces financial risk. However, the overall financial return generated by this project is smaller compared with the other investment opportunities.

Option B demonstrates particularly strong financial performance. The development of internet sales channels reflects changing consumer purchasing behaviour and the

increasing importance of digital commerce. The relatively high level of projected cash inflows suggests that this project could generate significant long-term value for the organisation.

Option C generates the highest total cash inflows but also requires the largest initial investment. Entering a new product manufacturing segment may involve additional operational challenges and increased financial exposure. As a result, the risk associated with this investment may be higher than the other options.

2.1.3 Critical Evaluation of NPV Results

Although NPV is widely regarded as the most reliable investment appraisal method, it is not without limitations. The accuracy of the results depends heavily on the reliability of the estimated cash flows. Forecasting future sales, operating costs and market conditions is inherently uncertain, and unexpected changes in economic conditions could significantly influence project performance (Atrill and McLaney, 2020).

In addition, the choice of discount rate plays a critical role in determining the NPV result. If the cost of capital is underestimated, the NPV may appear artificially high. Conversely, an excessively high discount rate may lead to the rejection of potentially profitable projects.

Despite these limitations, NPV remains the preferred investment appraisal technique because it directly measures the value created for shareholders and incorporates both the timing and risk of cash flows. For this reason, many financial managers consider NPV to be the most appropriate primary decision-making tool for capital investment decisions (Brealey, Myers and Allen, 2020).

2.2 Internal Rate of Return (IRR) Analysis

2.2.1 Explanation of IRR

The Internal Rate of Return represents the discount rate at which the net present value of an investment project equals zero. In other words, it indicates the rate of return that a project is expected to generate over its lifetime. A project is considered financially acceptable if its IRR exceeds the organisation's cost of capital (Hillier et al., 2019).

Managers often favour the IRR method because it produces a percentage return, which is easy to interpret and compare with alternative investment opportunities. This makes it a useful tool for communicating project performance to stakeholders and senior management.

2.2.2 IRR Results and Interpretation

The IRR calculated for Option B exceeds the company's cost of capital of 6 percent. This indicates that the project is expected to generate returns above the minimum required rate of return and therefore represents a financially viable investment.

The IRR result supports the conclusion reached through the NPV analysis and strengthens the case for selecting the internet sales development project as a key component of Westward Plc's future growth strategy.

2.2.3 Limitations of IRR

Despite its popularity, the IRR method has several important limitations. One key limitation is the assumption that all intermediate cash flows generated by the project can be reinvested at the IRR itself. In practice, this assumption may not be realistic, particularly when the calculated IRR is significantly higher than market interest rates.

Another limitation arises when comparing projects of different sizes or projects with unconventional cash flow patterns. In such situations, IRR can sometimes produce misleading rankings, leading managers to select projects that do not maximise shareholder value.

Because of these limitations, financial management literature generally recommends using IRR alongside NPV rather than relying on it as the sole decision-making criterion (Brealey, Myers and Allen, 2020).

2.3 Interpretation for Management

The Payback Period method measures the amount of time required for an investment project to recover its initial cost from the cash inflows it generates. The method is widely used in practice because it provides a simple indication of how quickly the organisation can recover its invested capital (Atrill and McLaney, 2020).

The payback period for Option B can be calculated using the cumulative cash inflows generated by the project.

Initial investment = £1,000,000

Year 1 cash inflow = £400,000

Year 2 cumulative inflow = £850,000

Year 3 cumulative inflow = £1,570,000

Since the investment is recovered during the third year, the payback period is calculated as follows:

$$\begin{aligned}
 &\text{Payback Period} \\
 &= 2 + (\text{Remaining Investment} / \text{Year 3 Cash Flow}) \\
 &= 2 + (150 / 720) \\
 &= \mathbf{2.21 \text{ years}}
 \end{aligned}$$

This result indicates that the initial investment would be recovered in approximately two years and three months. A relatively short payback period reduces financial risk and improves liquidity, which may be particularly important in uncertain economic conditions.

However, the payback method has significant limitations. The technique does not consider the time value of money and ignores all cash flows that occur after the payback period has been achieved. Consequently, it cannot measure the overall profitability of a project and should therefore be used only as a supplementary decision-making tool rather than a primary investment appraisal method (Hillier et al., 2019).

2.4 Capital Rationing and Optimal Investment Policy

In practice, organisations often face limitations in the amount of capital available for investment. When this occurs, financial managers must allocate resources in a way that maximises the total value generated from the available budget. This situation is referred to as capital rationing (Brealey, Myers and Allen, 2020).

If Westward Plc has a capital budget of £2,500,000, it cannot undertake all three projects simultaneously. Under such circumstances, the profitability index may be used to evaluate the value generated per unit of investment.

Applying this approach suggests that undertaking a combination of Option A and Option B would provide the highest total net present value within the available capital budget. This strategy allows the organisation to diversify its investment risk while also capturing the benefits of digital expansion.

2.5 Financing the Investment Program

In order to implement the recommended investment strategy, Westward Plc must consider the most appropriate sources of finance. Organisations typically rely on a combination of internal and external funding sources to finance capital investment projects.

Retained earnings represent the most cost-effective source of finance because they do not involve interest payments or dilution of ownership. However, internal funds may be insufficient to finance large investment programmes.

Debt financing provides access to additional capital and offers tax advantages because interest payments are tax deductible. Nevertheless, excessive reliance on debt increases financial risk and may raise concerns among investors and creditors.

Equity financing involves issuing new shares to raise capital from investors. While this approach reduces financial risk because it does not require fixed repayments, it may dilute the ownership and control of existing shareholders.

A balanced financing strategy that combines retained earnings with moderate levels of debt is therefore likely to be the most appropriate approach. This strategy enables the organisation to maintain financial flexibility while minimising the overall cost of capital.

Conclusion

This report has critically evaluated financial performance and investment decision-making using established financial management techniques, in accordance with the requirements of the 2025–26 Finance for Business Managers assignment specification. The analysis was structured into two major components: the evaluation of historical financial performance through ratio analysis and the appraisal of proposed investment opportunities using discounted cash flow techniques. Together, these approaches provide a comprehensive assessment of how financial information can be utilised to support both operational and strategic decision-making within modern organisations.

The first part of the report examined the financial performance of Unilever Plc through profitability, liquidity, efficiency, gearing and investor ratios over two consecutive financial years. The results indicate that Unilever remains a financially stable organisation supported by its strong global brand portfolio, diversified product range and extensive international presence. Profitability ratios demonstrate relatively consistent operating performance despite challenging macroeconomic conditions, including inflationary pressures and fluctuations in raw material costs. This suggests that the organisation has been able to maintain effective cost control while leveraging its brand strength and economies of scale in highly competitive fast-moving consumer goods markets.

Liquidity analysis indicates that Unilever maintains an adequate level of short-term solvency, enabling the company to meet its current financial obligations as they arise. However, maintaining an appropriate balance between liquidity and operational efficiency remains important, as excessive working capital investment may result in inefficient use of financial resources. Efficiency ratios also highlight the importance of effective inventory management and receivables control, particularly for multinational organisations operating complex global supply chains.

The analysis of gearing and investor ratios further highlights the importance of maintaining an appropriate balance between financial leverage and shareholder expectations. While moderate borrowing can enhance shareholder returns through tax advantages and a lower cost of capital, excessive reliance on debt financing may increase financial risk and exposure to interest rate fluctuations. Investor indicators such as earnings per share and dividend yield demonstrate the company's commitment to shareholder value creation, although these measures are influenced by market sentiment and economic conditions. Importantly, the findings confirm that ratio analysis has inherent limitations because it relies on historical financial data and may be influenced by accounting policies. Consequently, ratios should be interpreted within a broader strategic context rather than used as standalone indicators of performance.

The second part of the report evaluated three proposed investment opportunities for Westward Plc using Net Present Value (NPV) and Internal Rate of Return (IRR) investment appraisal techniques. These methods are widely recognised as appropriate tools for evaluating long-term capital investments because they incorporate the time value of money and allow systematic comparison of alternative projects (Brealey, Myers and Allen, 2020). The financial analysis indicates that Option C generates the highest net present value and therefore offers the greatest potential to increase shareholder wealth.

The IRR analysis further supports this conclusion by demonstrating that the investment generates returns exceeding the organisation's cost of capital. However, investment appraisal techniques should not be interpreted mechanically because financial models rely on assumptions regarding future cash flows, market conditions and discount rates, which involve uncertainty. Consequently, managerial judgement remains an essential component of effective financial decision-making.

The report also considered the continued use of non-discounting investment appraisal techniques such as the payback period and accounting rate of return. Although these methods have recognised theoretical limitations, they remain widely used because they provide simple insights into liquidity risk and capital recovery.

Overall, the report demonstrates that effective financial management requires an integrated approach that combines financial analysis, investment appraisal and strategic judgement. Organisations that systematically analyse financial information and align financial decision-making with long-term strategic objectives are better positioned to manage risk, allocate resources efficiently and create sustainable shareholder value.

Recommendations

Based on the findings presented in this report, several recommendations can be proposed to strengthen financial management practices and support improved decision-making within organisations operating in complex and competitive markets.

One important recommendation is that organisations such as Unilever should continue to strengthen their financial performance monitoring systems by integrating traditional ratio analysis with forward-looking financial forecasting techniques. While ratio analysis provides valuable insights into historical performance, effective financial management requires the ability to anticipate potential future risks. Scenario analysis, sensitivity testing and financial modelling can therefore provide valuable additional insights into how changes in economic conditions, cost structures or consumer demand may influence future performance.

In addition, improvements in working capital management would further enhance liquidity and financial resilience. Effective management of inventory levels, receivables collection and supplier payment terms is essential for maintaining healthy cash flow and operational stability. The adoption of advanced inventory management systems, digital supply chain monitoring tools and predictive analytics could help organisations reduce excess stock while maintaining service quality and operational efficiency. Similarly, more robust credit control procedures and improved receivables monitoring would help maintain stable cash flow without undermining long-term customer relationships.

Another important recommendation relates to the management of capital structure. Organisations should continue to monitor their gearing levels carefully in order to maintain an appropriate balance between financial risk and return. While moderate use of debt can reduce the weighted average cost of capital due to tax advantages, excessive borrowing may increase financial vulnerability during periods of economic uncertainty or rising interest rates. Regular financial stress testing and ongoing monitoring of debt servicing capacity would therefore help ensure long-term financial sustainability.

For capital investment decisions, the findings of this report strongly support the continued use of Net Present Value as the primary investment appraisal technique. NPV is widely regarded as the most theoretically robust method because it directly measures value creation and incorporates the time value of money. Although other techniques such as Internal Rate of Return and Payback Period may provide useful supplementary information, they should be used primarily as supporting tools rather than as substitutes for NPV when evaluating long-term investment opportunities.

It is also recommended that organisations incorporate broader strategic considerations when evaluating investment proposals. Financial performance indicators alone may not

capture the full range of risks and opportunities associated with large capital investments. Factors such as market demand, technological capability, competitive response, regulatory constraints and environmental considerations should therefore be carefully evaluated alongside financial metrics.

Finally, organisations should ensure that financial analysis is fully integrated into their broader strategic planning processes. Aligning financial decision-making with long-term organisational objectives enables management to prioritise investments that support sustainable growth and long-term value creation. In addition, improving financial literacy among non-financial managers can strengthen organisational decision-making by enabling a wider range of managers to interpret financial information effectively and participate more actively in strategic financial discussions.

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Appendices

Appendix A: Unilever Plc Income Statements

Extracted consolidated income statements for the financial years 2022 and 2023, obtained from Unilever Plc Annual Reports. These statements form the basis for profitability and performance analysis conducted in Task 1.

Appendix B: Unilever Plc Statements of Financial Position

Consolidated balance sheets for the financial years 2022 and 2023. These data were used to calculate liquidity, gearing, and efficiency ratios.

Appendix C: Ratio Calculations

Detailed calculations of:

- Profitability ratios
- Liquidity ratios
- Efficiency ratios
- Gearing ratios
- Investor ratios

All calculations are presented step-by-step to demonstrate transparency and accuracy, in line with assessment requirements.

Appendix D: Investment Appraisal Calculations

Excel-style tables showing:

- Net Present Value (NPV) calculations for Options A, B, and C
- Internal Rate of Return (IRR) calculation
- Discount factors at 6%
- Tax and capital allowance adjustments

Appendix E: Capital Rationing Analysis

Calculation of optimal investment policy under limited capital conditions, including total NPV achieved from the selected investment combination.

Appendix F: Assumptions

Summary of assumptions used in Task 2, including:

- Cost of capital
- Tax rate
- Capital allowance treatment
- Timing of cash flows