



Prifysgol Cymru
Y Drindod Dewi Sant
University of Wales
Trinity Saint David

Student Name: Manikanta Gurram

Student Number: 2323354

Course Name: Financial management

Lecturer Name: Jia Miao

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Introduction:

British-based Unilever PLC is a holding company for consumer goods. The business manufactures and markets ice cream, nutrition, personal care, household products, and beauty and wellness products through its subsidiaries. Over 400 brands are owned by Unilever in 190 countries. Several popular brands are among them, such as Sunlight, Ben & Jerry's, Hellmann's, Lipton, Dove, and Vaseline (McFarlane, 2023).

Unilever became one of the largest consumer goods companies in the world by extending its portfolio through innovation and acquisitions. The company focuses on utilizing innovation for continued growth, expanding its worldwide presence, and highlighting sustainability across its business processes and products.

PART A:

Unilever Business Model:

The company's primary focus is on manufacturing and selling consumer goods under several well-known brands, including Magnum, Lipton, Dove, and Knorr. With its recently adopted operating model, which is structured around five primary business units, Unilever has experienced significant growth. This includes Ice Cream, Personal Care, Nutrition, Beauty & Well-Being, and

Personal Care. Each company group has a specific focus on brands and categories, and every segment is entirely responsible for its own strategy, growth, and delivery of worldwide profits. According to Unilever, the new structure would lessen complexity and enhance performance, enabling it to react to channel and customer developments more quickly than in the past. Unilever Beauty & Wellbeing achieved 7.4% underlying sales growth (USG) in its first quarter results since its implementation, while Personal Care had 6.7% growth in sales in the same timeframe (Carrara, 2022).

Market Place, Position and Major Competitors:

Unilever's market value is \$151.50 billion as of August 2024. Based on our statistics, this ranks Unilever as the 95th most valuable corporation in the world by market value. A publicly listed firm's total market value of its outstanding shares is its market capitalization, often known as its market cap. This number may be utilized to determine the value of the company (MarketCap, 2024).

Important competitors of Unilever in the consumer goods sector are personal care Companies like Henkel and Reckitt Benckiser Group, Food and Beverage Companies like Colgate Palmolive, Nestlé and PepsiCo, and Home Care Companies like Procter & Gamble and Johnson & Johnson. These rivals compete with Unilever in the market by providing a variety of items in their corresponding areas (Cuofano, 2024).

Market cap history of Unilever from 1996 to 2024



Source: (Cuofano, 2024)

Major Events:

Change of Directors:

Paul Polman, Unilever's longstanding CEO, will step down in January 2019 completing ten years in the role, the company stated today. Alan Jope will be the one who replaces him. Since 2014, Jope, 54, has served as head of Unilever's largest business division, beauty & personal care. In a note to investors, UBS analyst Pinar Ergun stated that the division under his leadership had 3.6% organic sales growth and an increase in its EBIT margin to 21%. She said that this was "one of the highest in the industry." (Maynard, 2024). Hein Schumacher has been appointed Unilever's new chief executive officer, the company announced today. The appointment comes after an extended worldwide search. Alan Jope, who announced his desire to retire from Unilever in September 2022, will be replaced by Hein (Unilever PLC, 2023).

Sustainability Initiatives:

According to Schumacher's strategy, Unilever will use a composite score to assess performance. This score will include sustainability. Schumacher emphasized Unilever's Ecodesign and biotechnology innovation initiatives, claiming that these helped reduce the products' overall carbon footprint. "We'll keep transforming our robust expertise in this area into products that lessen or better yet completely eradicate environmental effects," he declared (Clancy, 2023).

Acquisition of Smarty-pants:

Unilever, an established global supplier of personal care goods, acquired SmartyPants, Inc. ("Smarty-pants" or the "Company"), a Morgan Stanley Expansion Capital Portfolio company and a leading manufacturer of premium multivitamins. Entrepreneurs Courtney and Gordon Gould founded Smarty-pants in 2011 with the goal of developing a premium, comprehensive, and reasonably priced supplement to meet the wellness needs of both adults and children (Morgan Stanley, 2020).

PART B:

Financial Performance Review of Unilever:

The capacity of an organization to earn money and employ assets from its primary mode of business is measured subjectively by its financial performance. This term is frequently used to describe the general state of a company's finances throughout a specific time frame (Kenton, 2024).

The industry's average operating margin dropped from 3.2% to 1.8% in 2022–2023 and average profits decreased by 40% from the year before. Forget about making ends meet with tiny, single-digit margins—at the same operating level, the percentage of profit was a hefty 17.1%. Note that Unilever's estimates are global, and that margins in Europe will be marginally lower than elsewhere due to increased consumer trading down. The difference from supermarket land is still

hitting though. Higher prices were the sole cause of Unilever's 9.1% increase in sales. During that time, the actual volume of goods sold decreased by 0.2% (Pratley, 2023).

Financial Ratios of last 5 years:

Profitability Ratio	2023	2022	2021	2020	2019	Colgate Palmolive (2023)
Gross Profit Margin	42.24	40.23	42.30	43.45	44.01	58.22
Net Profit Margin	10.88	12.72	11.53	11.00	10.82	11.82
Return on Equity	33.63	39.90	35.41	38.51	46.35	278.50
Liquidity Ratios	2023	2022	2021	2020	2019	2023
Curren Ratio	0.76	0.75	0.70	0.78	0.78	1.11
Quick Ratio	0.46	0.44	0.36	0.52	0.53	0.58
Gearing Ratio	2023	2022	2021	2020	2019	2023
Debt to Equity Ratio	1.43	1.36	1.53	1.55	2.03	9.47
Efficiency Ratio	2023	2022	2021	2020	2019	2023
Asset Turnover	0.78	0.79	0.73	0.77	0.83	1.21
Inventory Turnover	6.23	6.77	6.62	6.65	6.88	4.06

(Source: Stock Analysis, 2024)

Profitability Ratios:

Gross Profit Margin:

Gross Profit Margin is to measure profitability of a company before applicable overhead costs.

$$\text{Gross Profit Margin} = (\text{Gross Margin} / \text{Net Sales Revenue}) * 100$$

Profitability Ratio	2023	2022	2021	2020	2019	Colgate Palmolive (2023)
Gross Profit Margin	42.24	40.23	42.30	43.45	44.01	58.22

Net Profit Margin	10.88	12.72	11.53	11.00	10.82	11.82
Return on Equity	33.63	39.90	35.41	38.51	46.35	278.50

Table: Self-Made

The gross profit margin for Unilever decreased almost from 44.01% in 2019 to 42.24% in 2023. Higher costs for raw materials, challenges with the supply chain, and inflationary pressures are the reasons for this downturn. Unilever keeps a solid margin despite the cut out but falling profitability points to the need for efficiency gains.

Over a year ago, our gross profit margin increased by 400 basis points throughout the quarter. Pricing increased gross profit margin by 280 basis points throughout the quarter, while raw materials had a 180-basis point negative effect. Our growth-funding activities increased gross profit margin by 300 basis points (Smith, 2024). Colgate-Palmolive's focus on high-margin personal care items, especially dental care, accounts for its much greater gross margin. This shows Colgate-Palmolive's superior cost management and pricing strength.

When compared to Colgate-Palmolive, Unilever's gross profit margin is lower, suggesting that cost control in lower-margin sectors such as food and refreshment is a challenge. Enhancing the effectiveness of its supply chain and concentrating on premiumization approaches in these areas should be Unilever's primary objectives.

Net Profit Margin:

Net profit margin is typically used to assess how proficiently management is running the business and to project future profitability based on management's sales projections. Investors can determine what proportion of income is dedicated to operating and non-operating expenses, as well as which percentage can be utilized to reinvest in the business or pay dividends to shareholders, by comparing net income with total sales (Janice & Toni, 2020).

$$\text{Net Profit Margin} = (\text{Net Income} / \text{Net Sales Revenue}) * 100$$

The net profit margin for Unilever has fluctuated throughout time, reaching a high of 12.72% in 2022 before dropping to 10.88% in 2023. This decrease is probably the result of higher operating costs as well as costs related to acquisitions and restructuring.

Commodities such as grain, chicken, soybeans, pulp, tallow, resins, essential oils, and tropical oils are examples of raw and packaging materials whose prices fluctuate with the market. Our profit margins have been negatively impacted and will probably continue to be negatively impacted by increases in the price of and/or decreases in the availability of energy, commodities, transportation (including trucks and containers), and other essential services, including as a result of COVID-19 and/or the conflict in Ukraine (Colgate Palmolive Annual Report, 2023). Because of its simplified

concentration on high-margin areas, Colgate-Palmolive has a slightly higher net profit margin than Unilever, indicating its ability to turn a larger portion of its revenue into profit.

Although not as high as Colgate-Palmolive's, Unilever's net profit margin is still competitive. Unilever may increase profitability by streamlining its operations even more, cutting costs, and concentrating on higher-margin markets.

Return on Equity:

Unilever's return on equity (ROE) dropped from 46.35% in 2019 to 33.63% in 2023 as a result of rising equity and decreasing profitability. This decline is concerning since it shows that Unilever is producing less profit for its shareholders.

$$\text{Return on Equity (ROE)} = (\text{Net Income} / \text{Shareholder's Equity}) * 100$$

Investment returns are quantified by return on equity. It is employed to calculate and assess the equity-based return on investment. Net income is divided by shareholders' equity to calculate return on equity. In 2017, 2018, 2019, 2020, and 2021, Unilever's ROE ratios are 23%, 76%, 40%, 31%, and 33%, respectively. Thus, it can be said that Unilever is increasing the value of shareholders' wealth and generating a return on equity through wise investment decisions (Shaikh et al, 2022).

Due to its substantial usage of monetary leverage (high debt-to-equity ratio), which increases returns on equity, Colgate-Palmolive has an exceedingly high return on equity. With the greatest net margins, asset turnover, and leverage ratio among its industry peers, Colgate-Palmolive has an incredible high return on equity (ROE) compared to other competitors. Even more impressive is Clorox's ROE of nearly 273%, which is primarily attained with an astounding 43.69 leverage ratio (Royal, 2017).

Even while Unilever's ROE is still high, the trend indicates declining shareholder returns. Unilever should concentrate on enhancing profitability and streamlining its capital structure in order to reverse this. Colgate-Palmolive's strong return on equity (ROE), which is driven by leverage, shows the dangers of having too much borrowing; Unilever should refrain from using too much leverage.

Liquidity Ratios:

One of the financial ratios that can be used to assess a company's capacity to pay off short-term debt is the liquidity ratio. One can calculate the result of liquidity ratios by dividing current liabilities and short-term borrowings by cash and liquid assets. As such, it is possible to display the number of times the cash and liquid assets are sufficient to pay off the short-term debt commitments. When the value is more than 1, it indicates that the company is in a strong financial position and is less likely to experience financial issues because the short-term obligations will be adequately encountered (Rashid, 2018).

Liquidity Ratios	2023	2022	2021	2020	2019	2023
Current Ratio	0.76	0.75	0.70	0.78	0.78	1.11
Quick Ratio	0.46	0.44	0.36	0.52	0.53	0.58

Table: Self-Made

Current Ratio:

The current ratio is a measurement used to evaluate an organization's ability to provide enough current assets to meet its current liabilities. A current ratio that is less than 100% cannot be the organization's intended result. In this situation, the Unilever corporation's current business process model prevents the corporation from amassing the necessary current asset value to pay down its current liabilities. This fact provides a source of ongoing debt risk for the businesses as they stand (Alshamsi & Al Kahlout, 2022).

$$\text{Current Ratio} = (\text{Current Assets} / \text{Current Liabilities}) * 100$$

Unilever's current ratio has remained reasonably consistent around 0.75-0.78 over the last five years, which shows that the business is maintaining a lean liquidity buffer and depending on efficient working capital management.

Colgate-Palmolive shows a robust liquidity position, as seen by a current ratio of 1.0, which suggests a greater ability to fulfill immediate obligations.

A corporation may find it difficult to satisfy its short-term obligations if its current ratio is below 1.00, while it may be able to pay its current debts when they become due if it has a ratio above 1.00. If a company's current ratio is lower than one, it can be because it has more bills than readily available funds to cover them (Fernando, 2024). Given its low current ratio, Unilever may find it difficult to satisfy its short-term obligations when the economy is unstable. To prevent future liquidity issues, it would be advantageous to modestly increase its liquidity by strengthening its cash and receivables management.

Quick Ratio:

Current liabilities are a company's debts or obligations that are due to be paid to creditors within a year. A company with a quick ratio of less than one may not be able to fully pay off its current liabilities in the short term, while a company with a quick ratio higher than one can instantly get rid of its current liabilities (Seth, 2024).

$$\text{Quick Ratio} = (\text{Monetary Current Assets} - \text{Inventory} / \text{Current Liabilities}) * 100$$

The quick ratio for Unilever has varied throughout time, reaching a low of 0.36 in 2021 and a slight improvement to 0.46 in 2023. The fact that the quick ratio is still below 1.0 shows how much

the business depends on inventory for fulfilling its short-term obligations. Except for one year, the quick ratio has fallen every financial year. However, when the ratio is less than 1, it suggests that the company is significantly depending on its assets, such as inventories, to cover its liabilities (Joshi, 2018)

When inventory is taken out of the picture, Colgate-Palmolive's quick ratio is higher, suggesting a significantly healthier liquidity position. There are risks associated with Unilever's reliance on inventory for liquidity, especially in the event of supply chain interruptions or a decline in demand. Improved cash flow management and a decreased dependency on inventory would strengthen the quick ratio and increase Unilever's financial flexibility.

Gearing Ratios:

Gearing Ratio	2023	2022	2021	2020	2019	2023
Debt to Equity Ratio	1.43	1.36	1.53	1.55	2.03	9.47

Table: Self-Made

Debt-to-Equity:

One financial leverage measure that can be beneficial when assessing the financial health of a company and determining the need to make an investment is the debt-to-equity ratio (D/E). It is regarded as a ratio of gearing that compares the capital or equity of the owner with debt, or money borrowed by the business (Boyle, 2023).

$$\text{Debt / Equity Ratio} = (\text{Total Liabilities} / \text{Shareholder's Equity}) * 100$$

A company's financial strength can be measured by looking at its debt-to-equity ratio, which shows how much equity and debt are being utilized to fund its assets. It is calculated by dividing the total liabilities of a company by the total equity held by shareholders (Dan Tyre, 2022). The debt-to-equity ratio of Unilever has been declining from 2.03 in 2019 to 1.43 in 2023. This implies a decrease in dependence on debt, so enhancing the financial stability of the company.

Due to its substantial reliance on debt to fund operations, Colgate-Palmolive has an extremely high debt-to-equity ratio, which raises financial risk. In comparison to Colgate-Palmolive, which has a higher level of financial risk because of its high leverage, Unilever has a better-balanced capital structure due to its modest gearing level. Unilever should continue to manage its debt carefully to avoid taking on too much financial risk, even though additional debt reduction may boost financial health.

Efficiency Ratios:

Efficiency Ratio	2023	2022	2021	2020	2019	2023
Asset Turnover	0.78	0.79	0.73	0.77	0.83	1.21
Inventory Turnover	6.23	6.77	6.62	6.65	6.88	4.06

Table: Self-Made

Asset Turnover:

The rotation of accounts receivable, the repayment of liabilities, the quantity and use of equity, and the overall use of inventories and equipment can all be determined using an efficiency ratio. The performance of investment and commercial banks can also be monitored and evaluated using this ratio. An organization's capacity to turn a profit from its assets is gauged by its efficiency ratio (Kenton, 2024).

$$\text{Asset Turnover Ratio} = (\text{Sales Revenue} / \text{Total Assets}) * 100$$

The ratio of the company's revenue or sales to the value of its reserves is known as the asset turnover ratio. The effectiveness in which a company uses its assets to generate sales may also be identified by looking at the asset turnover ratio (Daryanto et al., 2020). The asset turnover ratio for Unilever decreased marginally from 0.83 in 2019 to 0.78 in 2023, but it remained steady overall. This suggests that the company's capacity to produce income from its asset base has been reduced slightly.

Colgate-Palmolive manages its assets more effectively to produce income, as seen by its significantly higher asset turnover ratio. The reduced asset turnover of Unilever indicates potential for increased asset efficiency. Unilever might increase revenue generation and optimize asset usage by selling underperforming assets and streamlining its production capacity.

Inventory Turnover:

The Inventory Turnover Ratio indicates how frequently a company trades in and replaces its inventory during a specific time period, or how often inventory is turned into operating revenue. The relationship between average inventory and the average inventory cost for goods sold from operations has been defined. If a company generates Rs 20,000 crore in revenue but its average yearly inventory is Rs 4,000 crore, it means that the company sells its inventory five times a year (Bhat et al., 2019).

$$\text{Inventory Turnover Rate} = \text{COGS} / \text{Average Inventory}$$

Inventory appears to be being held longer before being sold, as seen by Unilever's declining inventory turnover from 6.88 in 2019 to 6.23 in 2023.

Colgate-Palmolive's varied product mix, especially in areas with longer shelf life, is reflected in its lower inventory turnover. Unilever's inventory turnover has decreased, although it is still more productive than Colgate-Palmolive's. Unilever could still do better by streamlining its inventory control systems, particularly for its slower-moving product categories.

Recommendations:

Efficiency and Premiumization:

Unilever should keep raising standards in its lower-margin areas, such as food and beverages. Furthermore, cost savings and increased supply chain efficiency may contribute to higher profitability.

According to a Trefis analysis, if Unilever's premiumization and zero budgeting initiatives prove successful, the company's valuation may rise by as much as 20 percent. According to Trefis, the Anglo-Dutch FMCG giant has an average EBITDA margin of about 18%, which is much less than the 25 percent standard at competitor Procter & Gamble and the 24 percent standard at Colgate-Palmolive. The analyst attributed Unilever's lower margins on a portfolio that was heavily weighted toward the mass market, expensive marketing and raw material costs, and other factors. With the implementation of a zero-based budgeting policy last year aimed at cutting marketing expenses and a rapidly expanding line of premium beauty products, Unilever is making efforts to boost profits (Caldwell, 2017).

Debt Management:



LSE:ULVR Debt to Equity History June 26th 2024

Source: (Simply Wall St, 2024)

Although Unilever's debt levels are lower than Colgate-Palmolive's, additional debt reduction might help lower financial risk and increase financial stability, especially in times when economic uncertainty.

According to Unilever's most current balance sheet, the company had liabilities of €23.5 billion that were due within a year and €31.0 billion that were past due. This was offset by €5.03 billion in receivables that were past due in less than a year and €5.85 billion in cash. Therefore, its liabilities exceed its cash and near-term receivables combined by €43.6 billion. Although this may sound like a lot, it is not that awful considering Unilever's massive €130.9 billion market value. If necessary, it could likely strengthen its balance sheet by obtaining cash. It is still worthwhile, nevertheless, to carefully examine its debt-repayment capacity. With a net debt to EBITDA ratio of roughly 2.0, Unilever appears to be using debt only moderately. We feel considerably more comfortable because of its 15.9 times strong interest cover. Over the past year, Unilever increased its EBIT by 4.5%. While that is by not very incredible, it is a positive development in terms of debt repayment. The balance sheet is the obvious place to start when analyzing debt levels (Simply Wall St, 2024).+

Enhance Inventory Management:

To free up capital and reduce holding costs, Unilever should concentrate on optimizing its inventory levels through setting in place improved demand forecasting and inventory control systems, especially in slow-moving categories.

In order to adopt a sustainable, circular strategy for extending shelf life, Unilever is investing in technology that simplifies processes to address the issue of surplus and aging inventory. The strategy called for cutting cycle times and discount procedures in five areas of Unilever's business: discount channels, food service, professional, international, and grocery. Particularly for products with more adaptable merchandising and assortment capabilities, the technology aids in identifying discount channels with optimal prices where Unilever products would profit most (Dominguez, 2023).

Focused Sustainability and Corporate Social Responsibility:

Leading the way in social and environmental responsibility efforts, Unilever should prioritize cutting carbon emissions, optimizing water use, and extending fair-trade standards throughout its supply chain. Beyond catering to customer preferences, showcasing sustainable leadership can reduce regulatory risks, improve operational resiliency, and enhance Unilever's reputation as a brand. Additionally, this may present chances for partnerships and government incentives related to sustainable development.

The Unilever approach places a strong emphasis on sustainability, which covers the environment, plastics, and palm oil. Building on Unilever's objective to provide a deforestation-free supply chain for five essential commodities, including palm oil, we are investigating new technology that may allow us to reduce the quantity of ingredients derived from palm trees in our soap bars while also lowering greenhouse gas emissions, all without sacrificing our soap's superior quality for customers. Plastic is still a top concern, and we're working to lower the percentage of virgin plastic in our portfolio while concentrating on innovative packaging (Unilever PLC, 2024).

A key component of the brand propositions of some of the largest companies today is their sustained commitment to social concerns, which they use to achieve contribution. This year, Dove, Lifebuoy, and Pepsodent persisted in educating consumers about oral hygiene, handwashing, and self-esteem with effective TV commercials, online promotions, and in-person education campaigns. Dove's "Cost of Beauty" ad, which is nominated for an Emmy, brought attention to the negative effects poisonous beauty has on young people's mental health (Unilever PLC, 2024).

The CRC is responsible for managing and overseeing Unilever's behavior with relation to its social and corporate responsibilities, its culture, and its standing as a responsible corporate citizen. In order to carry out this responsibility, the Committee collaborated closely with Unilever and the Board on a number of issues, such as human rights, equity, diversity, and inclusion (ED&I), nonfinancial reporting, and Unilever's performance in relation to the Sustainability Progress Index (SPI), which serves as one of the performance metrics for our long-term incentive plans (Unilever PLC, 2024).

PART C:

Investment Appraisal:

Assumption:

Year	Projected Cash Flows (£ m)	
	A	B
0	-80	-75
1	25	50
2	25	20
3	20	20
4	55	20

Pay Back Period:

The payback period is the amount of time required for an investor to reach breakeven or to recover the cost of their investment. Longer repayment periods make investments less appealing, whereas shorter payback periods make investments more appealing (Kagan, 2024).

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

$$\begin{aligned}\text{Payback Period} &= 3 + (55 - 45) / 55 = 3 + (10) / 55 \\ &= 3 \text{ years } 2 \text{ months.}\end{aligned}$$

Year	B cash Flow (£ m)	Cumulative Cash Flow (£ m)
0	(75)	(75)
1	50	(25)
2	20	(5)
3	20	15

$$\begin{aligned}\text{Payback Period} &= 2 + (20 - 15) / 20 = 2 + 5/20 \\ &= 2 \text{ years } 3 \text{ months.}\end{aligned}$$

Accounting Rate of Return:

The average net income an asset is expected to generate divided by its average capital cost, presented as an annual percentage, is the Accounting Rate of Return (ARR) (Tim Vipond, 2023).

$$\text{ARR} = (\text{Average Annual Profit} / \text{Initial Amount Invested}) * 100\%$$

For Project A,

$$\text{Average Investment} = (\text{Initial Investment} + \text{Disposal Value}) / 2$$

$$= (80 + 0) / 2$$

$$= £40\text{m}$$

Average Investment = £40million Pounds

$$\text{Average Annual Profit} = (\text{Number of years} - \text{Depreciation}) / \text{Activity years}$$

$$= (25 + 25 + 20 + 55 - 0) / 4$$

$$= £125\text{m} / 4$$

Average Annual Profit = £31.25m

Considering Depreciation value as 0

$$\text{ARR} = (\text{Average Annual Profit} / \text{Initial Amount Invested}) * 100\%$$

$$= (31.25 / 80) * 100$$

$$= 39.06\%$$

Accounting Rate of Return = 39.06%

For Project B,

$$\text{Average Investment} = (\text{Initial Investment} + \text{Disposal Value}) / 2$$

$$= (75 + 0) / 2$$

$$= £37.5\text{m}$$

Average Investment = £37.5million Pounds

$$\text{Average Annual Profit} = (\text{Number of years} - \text{Depreciation}) / \text{Activity years}$$

$$= (50 + 20 + 20 + 20 - 0) / 4$$

$$= (110) / 4$$

$$= £27.5m$$

Considering Depreciation value as 0

Average Annual Profit = £110m

$$ARR = (\text{Average Annual Profit} / \text{Initial Amount Invested}) * 100\%$$

$$= (27.5 / 75) * 100$$

$$= 36.67\%$$

Accounting Rate of Return = 36.67%

Project A appears to earn more accounting profit per pound invested on average than Project B, based on its greater average return on investment (ARR). However, for a more thorough analysis, ARR should be used in combination with other metrics like net present value (NPV) as it does not take the time worth of money into account.

Net Present Value:

The cash flows for each period of the project or investment must be identified, discounted to present value, and the initial investment must be deducted from the total of the project's discounted cash flows to be able to get back to net present value (Girardin & Girardin, 2023).

$$NPV = \sum \left(\frac{\text{Cash Flow}}{(1 + r)^t} \right) - \text{Initial Investment}$$

Where,

r = 9.75% (Cost of Capital)

t= Time Period

NPV for Project A,

Years	Cash Flow	Discount (9.75%)	Present Value
0	(80)	1.0000	(80.00)
1	25	0.9110	22.78
2	25	0.8303	20.76
3	20	0.7568	15.14
4	55	0.6894	37.92
Total NPV			16.60

Table: Self-Made

Net Profit Value for cash flow is £16.60 million.

NPV for Project B,

Years	Cash Flow	Discount (9.75%)	Present Value
0	(75)	1.0000	(75.00)
1	50	0.9110	45.55
2	20	0.8303	16.61
3	20	0.7568	15.14
4	20	0.6894	13.79
Total NPV			16.09

Table: Self-Made

Net Profit Value for cash flow is £16.09 million.

Project A's net present value (NPV) is £16.60 million, marginally more than Project B's (£16.09 million). This indicates that, according to the NPV calculation, Project A should produce greater value for the corporation than Project B.

Project A should be chosen based only on net present value (NPV) since it has a higher NPV than Project B and is therefore anticipated to provide greater value to the business.

Advantages and Shortcomings of the PBP, ARR, and NPV:

Advantages of Payback Period:

Focus on Liquidity:

PBP is especially helpful for businesses that prioritize liquidity and short-term risk management because it highlights the amount of time it takes to recoup the initial investment. It aids in locating initiatives that swiftly free up funds for other purposes. One important piece of information that no other capital planning method provides is the payback period. A project that has a shorter payback period is typically less risky. This kind of information is vitally important for small enterprises who have little funding. For small enterprises to reinvest their costs in new prospects, they must swiftly recover their costs (Borad, 2022).

Ease of Use and Simplicity:

The simplicity of the payback technique is its main benefit. It's a simple method of comparing multiple projects and selecting the one with the quickest payback period. Nevertheless, there are several theoretical and practical issues with the payback (Woodruff, 2019). PBP is an approachable tool for managers because it is simple to compute and comprehend. Simple math skills are all that are needed; advanced financial knowledge is not essential.

Shortcomings of Payback Period:

Ignore the Time Value of Money:

The repayment method's primary drawback is that time worth of money is not taken into account. Early project financial flows are given more weight than cash flows collected later in the project. Even if two projects have the same payback period, one may provide more cash flow in its early years while the other may generate more in its subsequent years. The repayment technique in this case does not offer a clear way to decide which project to choose (Woodruff, 2019).

Lacks Consideration of Profitability:

A project with a short payback time may not be as profitable overall as a project with a longer payback period since PBP cannot measure profitability. Delaying the replacement of depreciated machinery and assets reduces the overall payback times. The industrial process may suffer more from this approach than benefit from it (Awomewe and Ogundele, 2019).

Advantages of Accounting Rate of Return (ARR):**Focus on Returns:**

The average rate of return approach ignores the risk associated with an investment. Rather, it focuses on actual returns, or profits, from prior iterations of the same investment. The return for a given period of time divided by the number of years, months, or fiscal quarters spanned is the first step in the formula to calculate an average rate of return, according to the Corporate Finance Institute. This outcome is split by the total amount of investment needed to generate the return. By multiplying this outcome by 100, a percentage is obtained (Hartman, 2016).

Integration with Accounting Principles:

Accounting rules and principles form the foundation of ARR. This indicates that it is in line with well recognized standards in the financial sector, giving traders a trustworthy and uniform measure for assessing investments. ARR's usefulness and credibility are increased when accounting standards are incorporated into it (Financial Team, 2023).

Shortcomings of Accounting Rate of Return (ARR):**Ignoring the timing of the cash flows:**

As a result, two projects may yield outcomes for their Average Rate of Return (ARR) that are comparable to each other or even identical, yet one may pay for itself far more quickly than the other. Business managers may reject certain extremely appealing long-term projects that give larger profits after many years simply because they have low average rates of return if they place an excessive amount of emphasis on the short-term returns from investments (Grzegorzek, 2022).

Inconsistency:

The lack of an objective calculation of the cutoff period is the first limitation. We are unable to discern between profitable and unprofitable businesses because the AAR statistic is not equivalent to a market return. Our inability to compare on reliable grounds could make it more difficult to correctly evaluate the rate (Kitov, 2024).

Advantages of Net Profit Value (NPV):

- NPV offers a clear measurement. With the imposed discount rate, it calculates the wealth generation from the possible investment in current dollar values.
- Instead of using net earnings, which include non-cash factors like depreciation, NPV uses cash flows (Mendell, 2020).

Disadvantages of Net Profit Value:

- There is a discount rate to choose from. NPV additionally assumes that the project's or investment's discount rate will remain constant throughout time. Like interest rates, discount rates are subject to annual fluctuations. Take commercial real estate capitalization ("cap") rates into consideration. Benchmarks are dynamic. Opportunity costs vary and are not constant for every investor (Mendell, 2020)..
- NPV is predicated on your ability to precisely estimate and forecast future cash flows. My crystal ball has occasionally showed cracks, even though yours might not (Mendell, 2020).

Conclusion:

Considering Unilever's continuing strong profitability and efficiency, it is obvious that adjustments in liquidity and gearing are required. A review of the business's financial performance including key figures, investment evaluations, and comparisons with competitors like Colgate-Palmolive makes this apparent. The NPV, ARR, and Payback Period techniques were used to evaluate two potential projects; Project A showed a greater NPV and ARR, indicating greater potential value. On the other hand, Project B offers a faster return. The greater overall financial benefits of Project A make investment in it feasible. Future performance at Unilever could be enhanced by strengthening its financial strategy and efficiently managing capital projects.

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