



PRIFYSGOL CYMRU

Y Drindod Dewi Sant

UNIVERSITY OF WALES

Trinity Saint David

SWANSEA - ABERTAWE

Finance for Business Managers

BMMB7005

LEVEL 7

Semester 1 – 2025-2026

Bhumika Thoriya (2309479)

Exclusive Summary

This report provides a comprehensive financial analysis of Unilever PLC, focusing on its performance and investment decision-making practices. Financial ratio analysis was used to evaluate key areas including profitability, liquidity, gearing, efficiency, and investor returns over the period 2023–2024.

The findings indicate that Unilever remains a financially strong and resilient organisation; however, there is a noticeable decline in profitability ratios such as operating margin, net profit margin, and return on equity. This decline reflects rising operating costs and broader macroeconomic pressures. Liquidity ratios remain below standard benchmarks, but this is typical within the FMCG industry and is supported by strong operating cash flows. Gearing levels are relatively high but manageable, although the decline in interest coverage suggests increasing financial pressure. Efficiency ratios highlight areas for improvement, particularly in asset utilisation and receivables management. From an investor perspective, earnings per share have declined slightly, but an increase in dividend yield demonstrates the company's commitment to maintaining shareholder confidence.

The report also recognises the limitations of financial ratio analysis, particularly its reliance on historical data and its inability to capture qualitative factors such as brand value and innovation. Therefore, a combination of financial and strategic analysis is necessary for a more complete evaluation.

In the second part, capital investment decisions for Westward were analysed using key appraisal techniques, with Net Present Value (NPV) identified as the most reliable method. NPV incorporates the time value of money and directly measures value creation, aligning with the objective of shareholder wealth maximisation. Based on the analysis, Project B generates the highest NPV and is therefore the most financially viable option.

While Internal Rate of Return (IRR) and Payback Period provide useful additional insights into efficiency and liquidity, they have limitations and should be used as supporting tools rather than primary decision criteria.

Overall, the report concludes that effective financial management requires not only strong financial performance but also disciplined investment decisions. By improving cost efficiency, strengthening financial control, and adopting value-based investment approaches, companies can enhance long-term shareholder value and financial sustainability.

Table of Contents

Introduction	5
Main Findings	7
Task 1	7
1.1 . Ratio Analysis and Results	7
1.2 Critical Evaluation of Financial Performance	12
1.3 . Limitations of Ratio Analysis.....	13
Part 2	14
2.1 Justification for Using Net Present Value (NPV)	14
2.2 Importance of the Time Value of Money	15
2.3 Shareholder Wealth Maximisation	17
2.4 Implications for Management.....	18
2.5 Reasons Managers Continue to Use Non-Discounting Investment Appraisal Methods	20
2.6 Additional Factors in Capital Investment Decisions	21
Conclusion.....	22
Recommendations:-	24
1. Improve Cost Efficiency and Profit Margins	24
2. Strengthen Working Capital Management	24
3. Manage Financial Leverage and Interest Risk	24
4. Enhance Asset Utilisation and Operational Efficiency	25
5. Maintain Investor Confidence through Stable Returns	25
6. Prioritise Value-Based Investment Decisions (NPV Approach)	25
7. Incorporate Risk and Strategic Factors in Investment Decisions	25
Appendix 1:	26
Appendix 2:	27
Appendix 3:	31
References:	34

Introduction

This report provides a detailed financial analysis of Unilever PLC, a leading multinational company operating within the fast-moving consumer goods industry. Unilever is a globally recognised organisation with operations in over 190 countries and a diversified portfolio spanning beauty, personal care, home care, and food products. Its strong market position, brand equity, and global reach make it an ideal case for evaluating financial performance and strategic decision-making. Unilever operates in a highly competitive and dynamic environment characterised by fluctuating consumer demand, cost pressures, and macroeconomic uncertainty. In such a context, analysing financial statements becomes essential for understanding the company's profitability, liquidity, efficiency, and capital structure. Financial statements, including the income statement, balance sheet, and cash flow statement, provide critical insights into how effectively a company generates profits and manages its resources. However, raw financial data alone is insufficient; therefore, financial ratio analysis is widely used to interpret this information and support decision-making. According to Brealey, Myers and Allen (2020), ratios allow stakeholders to evaluate performance trends, compare results across periods, and assess operational efficiency. Furthermore, ratio analysis helps investors and managers identify strengths and weaknesses, enabling informed strategic planning. Despite its usefulness, it is important to acknowledge limitations such as reliance on historical data and the inability to capture qualitative factors like brand value or innovation (Arnold, 2013). Therefore, combining quantitative ratio analysis with broader financial and strategic evaluation provides a more comprehensive understanding of organisational performance. This report adopts such an approach to assess Unilever's financial position and provide meaningful recommendations for improving long-term shareholder value.

In addition to financial performance analysis, effective financial management also involves making sound capital investment decisions. Capital investment refers to the allocation of funds into long-term projects or assets with the objective of generating future returns. Within this context, Westward represents a firm evaluating investment opportunities to enhance growth and profitability. Capital investment decisions are critical because they involve substantial financial commitment and have long-term implications for organisational

success. various methods are available to support such decisions, broadly categorised into discounting and non-discounting techniques. Discounting methods, such as Net Present Value (NPV) and Internal Rate of Return (IRR), incorporate the time value of money and provide a more accurate measure of an investment's value (Ross et al., 2022). NPV, in particular, is considered the most reliable method as it directly measures the increase in shareholder wealth by discounting future cash flows to their present value (Brealey et al., 2020). On the other hand, non-discounting methods such as the payback period and accounting rate of return (ARR) are simpler and widely used in practice due to their ease of calculation and interpretation (Atrill and McLaney, 2019). However, these methods ignore the time value of money and may lead to less accurate decisions. Therefore, organisations like Westward often use a combination of techniques to balance theoretical accuracy with practical application. In addition to these methods, factors such as risk, market demand, and strategic alignment must also be considered to ensure that investment decisions contribute to long-term organisational objectives (Johnson et al., 2020). By integrating financial analysis with capital investment appraisal, this report aims to provide a holistic evaluation of financial management practices and support effective decision-making.

Main Findings

Task 1

1.1 . Ratio Analysis and Results

Financial ratio analysis provides a structured framework to evaluate the performance of Unilever across profitability, liquidity, gearing, efficiency, and investor returns (Stephen Penman, 2013; Aswath Damodaran, 2012). This section focuses on analysing the calculated ratios for 2023 and 2024 and interpreting what these results indicate about the company's financial position.

1.1.1 Profitability Ratios

Profitability ratios measure a company's ability to generate profit from its operations, assets, and shareholders' investment. These ratios are essential indicators of financial performance and efficiency, as they show how effectively a company converts revenue into profit (Brigham and Ehrhardt, 2017; Nissim and Penman, 2001). Strong profitability enables firms to reinvest in operations, sustain long-term growth, and provide returns to shareholders (Fama and French, 2000).

(i) Operating Profit Margin

Formula:

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

The operating profit margin evaluates how efficiently a company manages its core operations by measuring profit after operating expenses such as administration, marketing, and distribution costs (Damodaran, 2010).

Unilever's operating profit margin declined from 16.4% in 2023 to 15.5% in 2024. This decline indicates that operating costs increased faster than revenue, reflecting reduced operational efficiency (Damodaran, 2012). Possible factors include increased input costs, higher marketing investments, and restructuring expenses. However, the margin remains relatively strong compared to industry standards.

(ii) Net Profit Margin

Formula:

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

Net profit margin measures overall profitability after all expenses, including interest and taxes, have been deducted (Penman, 2010).

Unilever's net profit margin decreased from 12.0% in 2023 to 10.5% in 2024, indicating declining overall profitability. Nevertheless, a margin above 10% is generally considered acceptable, suggesting that the company remains financially stable despite the decline (Penman, 2013).

(iii) Return on Equity (ROE)

Formula:

$$\text{Net Profit} \div \text{Shareholders' Equity} \times 100$$

Return on Equity (ROE) measures how effectively a company generates returns using shareholders' funds (Palepu, Healy and Peek, 2013).

Unilever's ROE declined from 34.4% to 28.2%. Although still significantly above the typical benchmark of 15–20%, this decrease suggests reduced efficiency in generating returns for shareholders (Palepu, Healy and Peek, 2020).

Overall Profitability Analysis

Overall, profitability remains strong but shows a downward trend. This trend may be attributed to rising costs and external economic pressures. According to (Nissim and Penman, 2001), declining profitability ratios often signal the need for improved cost control and operational efficiency.

1.1.2 Liquidity Ratios

Liquidity ratios assess a company's ability to meet its short-term obligations. These ratios are crucial for evaluating financial stability and ensuring operational continuity (Atrill and McLaney, 2019).

(i) Current Ratio

Formula:

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

The current ratio measures whether a company has sufficient short-term assets to cover its short-term liabilities.

Unilever's current ratio remained constant at 0.76 in both years, which is below the recommended benchmark of 1.0–1.5 (Atrill and McLaney, 2020). This suggests that current liabilities exceed current assets, indicating potential liquidity risk. However, FMCG companies often operate with lower ratios due to strong cash flows.

(ii) Quick Ratio

Formula:

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

The quick ratio provides a stricter measure of liquidity by excluding inventory (Brigham and Ehrhardt, 2021).

Unilever's quick ratio increased slightly from 0.52 to 0.54, but remains below 1. This indicates reliance on continuous cash inflows rather than liquid assets. Studies such as (Deloof, 2003) highlight that efficient working capital management can compensate for lower liquidity ratios.

Overall Liquidity Analysis

The results suggest that while liquidity management is efficient, it exposes the company to short-term financial risk. However, strong operational cash flows help mitigate this concern (Shin and Soenen, 1998).

1.1.3 Gearing Ratios

Gearing ratios measure the extent to which a company relies on debt financing and assess financial risk (Myers, 1984).

(i) Debt-to-Equity Ratio

Formula:

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

This ratio indicates the proportion of debt relative to shareholders' equity.

Unilever's debt-to-equity ratio decreased slightly from 1.38 to 1.36, indicating a small reduction in financial leverage. However, the ratio remains relatively high, suggesting continued reliance on debt financing (Rajan and Zingales, 1995).

(ii) Interest Coverage Ratio

Formula:

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

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

Unilever's interest coverage ratio declined from 9.8 times to 8.9 times. Although still above the safe benchmark of 3 times, the decrease indicates rising financial pressure (Modigliani and Miller, 1958).

Overall Gearing Analysis

Overall, financial risk is manageable but requires monitoring. According to (Myers, 1984), companies with higher leverage must carefully balance risk and return to maintain financial stability.

1.1.4 Efficiency Ratios

Efficiency ratios evaluate how effectively a company uses its assets and manages operations (Higgins, 2018).

(i) Asset Turnover Ratio

Formula:

$\text{Revenue} \div \text{Total Assets}$

This ratio measures how efficiently a company generates revenue from its assets.

Unilever's asset turnover ratio declined from 0.79 to 0.76, indicating reduced efficiency in asset utilization. Research by (Fairfield and Yohn, 2001) suggests that declining asset turnover can signal weakening operational performance.

(ii) Receivables Collection Period

Formula:

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

This ratio measures the average number of days required to collect customer payments.

Unilever's receivables collection period increased from 34 days to 36 days, suggesting slower customer payments and potential inefficiencies in credit management. Efficient working capital practices are essential to maintain liquidity (Lazaridis and Tryfonidis, 2006).

Overall Efficiency Analysis

These results highlight the need for improved working capital management. According to (Higgins, 2018), efficient asset utilization is critical for maintaining profitability and competitiveness.

1.1.5 Investor Ratios

Investor ratios assess returns to shareholders and the attractiveness of a company as an investment (Bodie, Kane and Marcus, 2021).

(i) Earnings Per Share (EPS)

Formula:

$$\text{Net Profit} \div \text{Number of Shares}$$

EPS measures the profit attributable to each share.

Unilever's EPS decreased from €2.85 to €2.54, reflecting declining profitability. However, the decline is moderate, indicating stable earnings performance (Fama and French, 2000).

(ii) Dividend Yield

Formula:

$$\text{Dividend per Share} \div \text{Market Price per Share} \times 100$$

Dividend yield measures the return provided to shareholders through dividends.

Unilever's dividend yield increased from 3.6% to 3.8%, indicating a commitment to maintaining shareholder returns despite lower earnings. According to (Lintner, 1956), stable dividend policies help maintain investor confidence.

Overall Investor Analysis

The company continues to prioritize shareholder returns, reflecting financial stability and long-term strategic focus (Gordon, 1963).

1.2 Critical Evaluation of Financial Performance

The financial performance analysis indicates that Unilever continues to demonstrate resilience, despite the challenges of rising costs, competitive pressures, and macroeconomic uncertainty. Profitability declined due to higher operating expenses and margin compression, reflecting broader industry trends in the FMCG sector (Kotler and Keller, 2016). Liquidity ratios show that Unilever relies on cash flow management rather than significant liquid reserves, which, while efficient, increases exposure to financial disruptions (Higgins, 2018). High leverage remains manageable, but interest coverage concerns indicate the need for careful monitoring (Modigliani and Miller, 1963; Graham, 2000). Efficiency ratios suggest potential for improvement in asset utilisation and receivables management. While declining EPS may worry shareholders, stable dividend payments help maintain confidence and support market perception (DeAngelo and DeAngelo, 2007).

Unilever's performance aligns with broader FMCG sector trends, characterised by input cost inflation, margin pressure, and subdued demand (Winvesta, 2025; Mint, 2024). The company also faces intense competition from private-label and local brands, particularly in emerging markets (DCF Modeling, 2025). Opportunities remain in improving cost efficiency, strengthening financial discipline, and focusing investment on higher-margin "power brands" (Reuters, 2025; The Times, 2024).

1.3 . Limitations of Ratio Analysis

While financial ratios are invaluable for understanding performance, they have notable limitations. Ratios are derived from historical accounting data and may not accurately predict future performance (Brealey, Myers and Allen, 2020). Differences in accounting methods, assumptions, and estimation practices can reduce comparability across periods and companies (Deegan, 2014). Moreover, ratio analysis cannot capture intangible assets, such as brand reputation, innovation capability, or ESG initiatives, which increasingly drive long-term value (Lev and Gu, 2016; Eccles, Ioannou and Serafeim, 2014). Therefore, ratio analysis should be supplemented with qualitative assessments, market insights, and strategic considerations to provide a comprehensive understanding of corporate performance (Kaplan and Norton, 1996).

Task 2

2.1 Justification for Using Net Present Value (NPV)

In order to evaluate the different investment options available to Westward, it is essential to apply appropriate capital budgeting techniques supported by academic theory. Investment appraisal methods such as Net Present Value (NPV), Internal Rate of Return (IRR), and Payback Period provide a structured framework for decision-making by assessing both profitability and risk (Brealey, Myers and Allen, 2020; Arnold, 2013).

The Net Present Value (NPV) method has been used as the primary evaluation tool, as it directly measures the expected increase in shareholder wealth by discounting future cash flows at the firm's cost of capital. According to (Ross, Westerfield and Jaffe, 2022), NPV is superior to other methods because it incorporates the time value of money and provides results in absolute monetary terms. A positive NPV indicates that the project is expected to generate returns above the required rate, thereby adding value to the firm. Therefore, among the available options, the project with the highest NPV should be preferred.

In addition to NPV, the Internal Rate of Return (IRR) has been applied to assess the efficiency of each investment. IRR represents the discount rate at which the NPV of a project equals zero. It provides a percentage return, which is useful for comparing projects (Damodaran, 2010). However, academic literature highlights certain limitations of IRR, particularly in cases of non-conventional cash flows or mutually exclusive projects, where it may lead to conflicting decisions (Brealey et al., 2020). For this reason, IRR should be used alongside NPV rather than as a standalone criterion.

The Payback Period method has also been considered to evaluate the liquidity and risk associated with each project. This method measures the time required to recover the initial investment. Shorter payback periods are generally preferred as they reduce exposure to uncertainty (Atrill and McLaney, 2020). However, this method ignores the time value of money and cash flows beyond the payback period, making it less reliable for long-term decision-making (Arnold, 2013).

Furthermore, risk assessment plays a crucial role in evaluating investment options. Projects with higher uncertainty should be analysed using adjusted discount rates or sensitivity analysis. As noted by (Damodaran, 2012), incorporating risk into capital budgeting decisions ensures more realistic and reliable outcomes. Sensitivity analysis allows management to evaluate how changes in key variables such as sales, costs, or discount rates may impact project viability.

Overall, the use of multiple investment appraisal techniques provides a more comprehensive evaluation of the available options. While NPV remains the most theoretically sound method, combining it with IRR and Payback Period enhances decision-making by incorporating profitability, efficiency, and risk considerations. This multi-method approach is widely recommended in financial literature to ensure robust and well-supported investment decisions (Ross et al., 2022; Brealey et al., 2020).

2.2 Importance of the Time Value of Money

The Net Present Value (NPV) approach is fundamentally based on the concept of the time value of money, which recognises that funds received today are more valuable than the same amount received in the future. This is because current funds can be reinvested to generate returns and are subject to lower uncertainty compared to future cash flows (Fisher, 1930; Brealey, Myers and Allen, 2020). Future cash flows are affected by inflation, opportunity cost, and project-specific risk, all of which reduce their real economic value if not properly accounted for (Damodaran, 2012). As highlighted by (Arnold, 2013), ignoring these factors can lead to significant overestimation of an investment's true worth.

NPV addresses this limitation by discounting each expected cash flow back to its present value using the firm's cost of capital. This ensures that both inflows and outflows are evaluated on a consistent basis, incorporating the opportunity cost of capital and the risk associated with the project (Ross, Westerfield and Jaffe, 2022). According to (Damodaran, 2010), the discount rate serves as a critical link between risk and return, allowing firms to adjust valuations based on project uncertainty. As a result, NPV provides a more realistic and theoretically sound measure of value creation.

Furthermore, NPV is particularly useful when assessing multiple investment options, such as those available to Westward, because it allows for direct comparison in monetary terms. Projects with higher NPVs are expected to generate greater value for shareholders, making the decision-making process more objective and aligned with the goal of wealth maximisation (Brealey et al., 2020; Nissim and Penman, 2001). This is especially important in the case of mutually exclusive projects, where selecting the option with the highest NPV ensures optimal allocation of limited resources.

This principle clearly differentiates NPV from simpler techniques such as the payback period and accounting rate of return (ARR). While the payback method focuses only on how quickly the initial investment is recovered, it ignores both the time value of money and cash flows beyond the payback period, leading to potentially misleading conclusions (Atrill and McLaney, 2020). Similarly, ARR is based on accounting profits rather than cash flows and does not consider the timing of returns, limiting its usefulness in investment appraisal (Arnold, 2013).

Moreover, relying solely on non-discounting methods may result in suboptimal decision-making, particularly for long-term projects with uneven or delayed cash flows. Studies such as (Shin and Soenen, 1998) emphasise the importance of incorporating timing and cash flow patterns into financial decisions. By converting all future cash flows into present-value terms, NPV provides a consistent and comparable basis for evaluating projects of different durations and risk profiles.

In conclusion, the application of NPV in assessing Westward's investment options ensures a rigorous and evidence-based approach to decision-making. Its ability to incorporate the time value of money, risk, and opportunity cost makes it superior to alternative methods.

Therefore, using NPV alongside supporting techniques such as IRR and Payback Period provides a comprehensive framework for selecting the most value-enhancing investment, fully aligned with the objective of maximising shareholder wealth (Ross et al., 2022; Brealey et al., 2020).

2.3 Shareholder Wealth Maximisation

Maximising shareholder wealth is widely recognised as the primary objective of financial management. The Net Present Value (NPV) method aligns directly with this objective because it measures the expected increase in the firm's value resulting from a proposed investment (Ross, Westerfield and Jaffe, 2022; Brealey, Myers and Allen, 2020). By discounting future cash flows at the firm's cost of capital, NPV provides a direct estimate of the economic value added by a project. Projects with a positive NPV are expected to generate returns exceeding the required rate of return, thereby creating value for shareholders, whereas negative NPV projects reduce firm value (Arnold, 2013).

A key advantage of NPV is that it provides an absolute measure of value creation in monetary terms, rather than a relative percentage. This makes it particularly useful when comparing projects of different scales, durations, or cash flow structures. According to (Nissim and Penman, 2001), valuation methods based on absolute measures are more consistent with equity valuation principles, as they directly reflect changes in firm value. This enables managers to make more strategic decisions by prioritising projects that maximise total economic benefit rather than simply focusing on rates of return.

In contrast, the Internal Rate of Return (IRR) provides a percentage return, which can sometimes lead to misleading conclusions, especially when comparing mutually exclusive projects. For example, a smaller project may have a higher IRR but generate less total value than a larger project with a lower IRR (Brealey et al., 2020). Furthermore, IRR can produce multiple values or fail to provide a meaningful result in cases of non-conventional cash flows, limiting its reliability as a decision-making tool (Damodaran, 2010).

Another important distinction lies in the reinvestment assumptions underlying each method. NPV assumes that interim cash flows are reinvested at the firm's cost of capital, which

reflects realistic market conditions and opportunity costs (Ross et al., 2022). In contrast, IRR assumes reinvestment at the internal rate of return itself, which may be unrealistic, particularly when the IRR is significantly higher than market rates (Damodaran, 2012). As noted by (Modigliani and Miller, 1958), using a consistent and market-based discount rate ensures that investment decisions remain aligned with overall firm valuation.

Moreover, the superiority of NPV is supported by both theoretical and empirical research. Studies such as (Graham and Harvey, 2001) show that financial managers widely prefer NPV as a primary capital budgeting tool due to its strong theoretical foundation and practical relevance. Similarly, (Fisher, 1930) emphasised that investment decisions should be based on present value principles to maximise economic welfare.

In the context of evaluating the different investment options available to Westward, the use of NPV provides a robust and evidence-based framework for decision-making. It allows for direct comparison of projects in terms of value creation and ensures that decisions are aligned with the objective of maximising shareholder wealth. While supporting techniques such as IRR and Payback Period can provide additional insights into efficiency and liquidity, NPV remains the most reliable and comprehensive method for selecting the optimal investment option (Brealey et al., 2020; Ross et al., 2022).

2.4 Implications for Management

From a strategic management perspective, the use of Net Present Value (NPV) as the primary investment appraisal technique ensures that capital allocation decisions are aligned with long-term value creation objectives. NPV provides a comprehensive framework that incorporates key financial factors such as risk, taxation, and the timing of cash flows, enabling managers to evaluate investment opportunities in a holistic manner (Petty et al., 2015; Brealey, Myers and Allen, 2020). By discounting future cash flows at the firm's cost of capital, NPV ensures that investment decisions reflect both the opportunity cost of funds and the uncertainty associated with future returns (Damodaran, 2010).

Furthermore, NPV facilitates the prioritisation of competing investment options by expressing outcomes in absolute monetary terms. This allows decision-makers to rank

projects based on their contribution to firm value, ensuring that limited financial resources are allocated efficiently (Ross, Westerfield and Jaffe, 2022). According to (Arnold, 2013), firms that adopt value-based investment criteria such as NPV are more likely to achieve sustainable financial performance, as they focus on maximising economic profit rather than short-term accounting gains.

In addition, NPV supports disciplined capital budgeting by discouraging investments that fail to meet the required rate of return. Projects with negative NPVs are systematically rejected, thereby preventing inefficient allocation of resources and reducing the risk of value destruction (Brealey et al., 2020). This aligns closely with the principles of value-based management, which emphasise that all strategic decisions should contribute positively to shareholder wealth (Rappaport, 1986).

Moreover, empirical research supports the widespread adoption of NPV in corporate decision-making. For example, (Graham and Harvey, 2001) found that large firms predominantly rely on discounted cash flow techniques such as NPV when evaluating investment projects. This reflects the method's strong theoretical foundation and practical relevance in real-world financial management. Additionally, (Nissim and Penman, 2001) highlight that valuation techniques based on present value principles provide a more accurate representation of a firm's economic performance.

In the context of Westward's investment decision, the application of NPV enables a structured and evidence-based comparison of the available options. By quantifying the expected value addition of each project, NPV ensures that management selects the alternative that maximises long-term financial performance. While supplementary techniques such as Internal Rate of Return (IRR) and Payback Period can provide additional insights into efficiency and liquidity, they should be used as supporting tools rather than primary decision criteria due to their inherent limitations (Atrill and McLaney, 2020; Damodaran, 2012).

Ultimately, NPV provides a clear and quantifiable basis for evaluating the economic impact of capital projects, ensuring that managerial decisions are consistent with the objective of maximising shareholder wealth. Its integration of risk, timing, and cash flow magnitude

makes it the most appropriate and strategically aligned method for investment appraisal in modern financial management (Ross et al., 2022; Brealey et al., 2020).

2.5 Reasons Managers Continue to Use Non-Discounting Investment Appraisal Methods

Despite the theoretical advantages of NPV, many managers continue to rely on nondiscounting methods such as the payback period and accounting rate of return (ARR). This is largely due to practical considerations, including simplicity, speed of calculation, and ease of communication with non-financial stakeholders (Arnold, 2013).

2.5.1 Payback Period

The payback period measures the time required for an investment to recover its initial outlay through net cash inflows. Managers often use this method as a preliminary screening tool, particularly in environments characterised by capital constraints or uncertainty (Atrill and McLaney, 2019).

Its main advantage is its focus on liquidity and risk. Projects with shorter payback periods are perceived as less risky because the initial investment is recovered more quickly, reducing exposure to future uncertainty. This is particularly valuable in industries such as FMCG or technology, where market conditions can change rapidly (Lumby and Jones, 2015).

However, the payback method has significant limitations. It ignores cash flows that occur after the payback period and does not account for the time value of money, which can result in suboptimal investment decisions. While useful for initial project screening, it should not serve as the sole basis for investment appraisal (Brealey et al., 2020).

2.5.2 Accounting Rate of Return (ARR)

ARR calculates the ratio of average accounting profit to the average investment in a project. Managers often prefer ARR because it is simple, familiar, and closely aligned with internal financial reporting metrics (Pike and Neale, 2016).

ARR is easy to communicate to stakeholders and is consistent with accounting-based performance measures such as return on capital employed (ROCE). However, ARR suffers

from conceptual limitations, including reliance on accounting profit rather than cash flows and the failure to consider the timing of returns. Like the payback period, ARR does not account for the time value of money, making it theoretically inferior to NPV (Ross et al., 2022).

2.5.3 Why Non-Discounting Methods Remain Popular

The continued use of non-discounting methods can be explained by behavioural and organisational factors. Their simplicity and transparency make them easier to explain to nonfinancial stakeholders, while their speed allows managers to quickly eliminate clearly unattractive projects before applying more sophisticated techniques (Graham and Harvey, 2001).

Managerial incentives often emphasise accounting-based performance metrics, which can encourage reliance on ARR. Empirical studies indicate that firms frequently apply multiple appraisal methods simultaneously, combining non-discounting techniques with NPV to balance theoretical accuracy and practical convenience (Brounen et al., 2004). While these methods are less precise, their continued use reflects managerial priorities rather than financial optimality.

2.6 Additional Factors in Capital Investment Decisions

While NPV provides a rigorous quantitative foundation for investment appraisal, decisions should not be based solely on financial metrics. Qualitative and strategic considerations are critical to ensuring long-term project success (Brealey et al., 2020).

2.6.1 Risk

Risk reflects the uncertainty surrounding future cash flows and the possibility that actual outcomes may differ from forecasts. Even projects with positive NPV can underperform if risks are underestimated or poorly managed. Sources of risk include economic volatility, competitive pressures, technological changes, and operational disruptions (Arnold, 2013).

Managers address risk through sensitivity analysis, scenario planning, and adjustments to discount rates for higher-risk projects. Not all risks can be quantified, however, and

operational or strategic risks, such as reputational damage or supply chain failures, require managerial judgment beyond financial models (Damodaran, 2012). Understanding a project's risk profile is essential to ensure that expected returns compensate adequately for uncertainty.

2.6.2 Market Demand

The success of an investment depends on its ability to generate sustainable demand. Cash flow forecasts are based on assumptions regarding customer behaviour, pricing strategies, and competitive dynamics. Overestimating demand can result in projects failing to achieve expected returns, despite sound financial planning (Kotler and Keller, 2016).

To mitigate this, financial analysis should be complemented by market research, competitor analysis, and insights into consumer behaviour. Shifts in consumer preferences, technological substitution, and market saturation can all undermine revenue forecasts. Accurate demand estimation is therefore a critical factor in capital investment decisions (Grant, 2019).

2.6.3 Strategic Fit

Strategic fit refers to the alignment of an investment with the firm's long-term objectives, core competencies, and competitive strategy. Projects that generate strong financial returns but do not support strategic priorities may divert resources from higher-value initiatives and weaken the company's competitive position (Johnson et al., 2020).

Conversely, investments aligned with strategic goals, such as innovation, market expansion, or brand development, may be justified even if short-term financial returns are modest. Ensuring strategic alignment guarantees that capital allocation contributes to sustainable competitive advantage rather than focusing solely on short-term profitability (Porter, 2008).

Conclusion

In conclusion, this report has provided a comprehensive evaluation of Unilever PLC by analysing its financial performance through ratio analysis and examining capital investment

decision-making using established financial theories. The findings indicate that Unilever remains a financially strong and resilient organisation, supported by its global presence and diversified product portfolio. However, the analysis also highlights a noticeable decline in profitability, efficiency, and investor returns between 2023 and 2024, primarily driven by rising costs, competitive pressures, and macroeconomic challenges.

Liquidity ratios reveal that while the company operates with relatively low short-term asset coverage, this is consistent with industry practices and is supported by strong operational cash flows. Gearing levels remain high but manageable, although declining interest coverage suggests increasing financial pressure that requires careful monitoring. Efficiency ratios further indicate scope for improvement in asset utilisation and working capital management, particularly in receivables collection.

The report also emphasises the limitations of ratio analysis, noting that financial ratios alone cannot fully capture qualitative factors such as brand value, innovation, and strategic positioning. Therefore, a balanced approach combining quantitative and qualitative analysis is essential for a more accurate assessment of overall performance.

In the context of capital investment decisions for Westward, the report demonstrates that the Net Present Value (NPV) method is the most reliable and theoretically sound approach, as it incorporates the time value of money and directly measures value creation. While supporting techniques such as Internal Rate of Return (IRR) and Payback Period provide additional insights into efficiency and liquidity, they should be used alongside NPV rather than as primary decision tools. The analysis also highlights that non-financial factors, including risk, market demand, and strategic fit, play a critical role in ensuring successful investment outcomes.

Overall, the report concludes that effective financial management requires not only strong financial performance but also disciplined investment decision-making aligned with long-term shareholder wealth maximisation. By improving cost efficiency, strengthening financial discipline, and adopting a comprehensive approach to investment appraisal, Unilever and firms like Westward can enhance their financial sustainability and create long-term value for stakeholders.

Recommendations:-

1. Improve Cost Efficiency and Profit Margins

Unilever should prioritise cost optimisation strategies to address the decline in profitability ratios. This can be achieved through supply chain efficiencies, digital transformation, and cost control in marketing and operations. According to Aswath Damodaran (2012), firms experiencing margin pressure must focus on operational efficiency to sustain profitability. Additionally, studies such as Michael Porter (2008) highlight that cost leadership strategies can provide a competitive advantage in highly competitive industries like FMCG.

2. Strengthen Working Capital Management

The relatively low liquidity ratios suggest the need for improved working capital management, particularly in receivables collection and inventory control. Research by Marc Deloof (2003) demonstrates that efficient working capital management significantly improves firm profitability. Therefore, Unilever should implement stricter credit control policies and optimise inventory turnover to enhance liquidity without compromising operational efficiency.

3. Manage Financial Leverage and Interest Risk

Although gearing remains manageable, declining interest coverage indicates increasing financial risk. Unilever should consider gradually reducing its reliance on debt financing and maintaining an optimal capital structure. According to Franco Modigliani and Merton Miller (1958), while debt can enhance returns, excessive leverage increases financial distress risk. Maintaining a balanced capital structure will help ensure long-term financial stability.

4. Enhance Asset Utilisation and Operational Efficiency

The decline in asset turnover suggests underutilisation of resources. Unilever should focus on improving operational efficiency through better asset allocation and performance monitoring. Robert Higgins (2018) emphasises that efficient asset utilisation is critical for sustaining profitability and competitiveness. Investment in technology and process innovation can further enhance efficiency.

5. Maintain Investor Confidence through Stable Returns

Despite declining earnings, Unilever has maintained dividend growth, which is essential for investor confidence. According to John Lintner (1956), stable dividend policies positively influence investor perception and market value. The company should continue balancing dividend payments with reinvestment strategies to support long-term growth.

6. Prioritise Value-Based Investment Decisions (NPV Approach)

For capital investment decisions, firms like Westward should prioritise projects with the highest Net Present Value (NPV), as this method aligns with shareholder wealth maximisation. Richard Brealey, Stewart Myers, and Franklin Allen (2020) argue that NPV is the most theoretically sound investment appraisal technique. Supporting methods such as IRR and Payback Period should be used only for additional insights rather than primary decision-making.

7. Incorporate Risk and Strategic Factors in Investment Decisions

Investment decisions should not rely solely on financial metrics. Factors such as market demand, competitive positioning, and strategic alignment must be considered. K. R. Subramanyam and Krishna Palepu (2013) emphasise that integrating financial and strategic analysis leads to more informed decision-making. Additionally, sensitivity and scenario analysis should be applied to account for uncertainty (Damodaran, 2012).

Appendix 1:

Category	Ratio	Formula (where applicable)	2023	2024
Profitability	Operating Profit Margin	$\text{Operating Profit} \div \text{Revenue}$	16.4%	15.5%
	Net Profit Margin	$\text{Net Profit} \div \text{Revenue}$	12.0%	10.5%
	Return on Equity (ROE)	$\text{Net Profit} \div \text{Shareholders' Equity}$	34.4%	28.2%
Liquidity	Current Ratio	$\text{Current Assets} \div \text{Current Liabilities}$	0.76	0.76
	Quick Ratio	$(\text{Current Assets} - \text{Inventory}) \div \text{Current Liabilities}$	0.52	0.54
Gearing	Debt-to-Equity Ratio	$\text{Total Debt} \div \text{Shareholders' Equity}$	1.38	1.36
Efficiency	Interest Cover	$\text{Operating Profit} \div \text{Finance Costs}$	9.8×	8.9×
	Asset Turnover	$\text{Revenue} \div \text{Total Assets}$	0.79	0.76
	Receivables Days	$(\text{Trade Receivables} \div \text{Revenue}) \times 365$	34 days	36 days
Investor	Earnings per Share (EPS)	$\text{Net Profit} \div \text{Shares Outstanding}$	€2.85	€2.54
	Dividend Yield	$\text{Dividend per Share} \div \text{Market Price}$	3.6%	3.8%

Appendix 2:

Project	Initial Investment (£)	Capital Allowance per Year (£)	Annual Tax Shield (£)
A	600,000	120,000	30,000
B	1,000,000	200,000	50,000
C	1,600,000	320,000	80,000

Project A: Net Present Value Calculation (6% Discount Rate)

Year	Pre-tax Cash Flow (£)	After-tax Cash Flow (£)	Tax Shield (£)	Net Cash Flow (£)	Discount Factor (6%)	Present Value (£)
0	—	—	—	–600,000	1.000	–600,000
1	200,000	150,000	30,000	180,000	0.943	169,811
2	400,000	300,000	30,000	330,000	0.890	293,699
3	500,000	375,000	30,000	405,000	0.840	340,046
4	700,000	525,000	30,000	555,000	0.792	439,612

NPV (Project A): £643,168

Project B: Net Present Value Calculation (6% Discount Rate)

Year	Pre-tax Cash Flow (£)	After-tax Cash Flow (£)	Tax Shield (£)	Net Cash Flow (£)	Discount Factor (6%)	Present Value (£)
0	—	—	—	-1,000,000	1.000	-1,000,000
1	400,000	300,000	50,000	350,000	0.943	330,189
2	450,000	337,500	50,000	387,500	0.890	344,874
3	720,000	540,000	50,000	590,000	0.840	495,375
4	980,000	735,000	50,000	785,000	0.792	621,794

NPV (Project B): £792,231

Project C: Net Present Value Calculation (6% Discount Rate)

Year	Pre-tax Cash Flow (£)	After-tax Cash Flow (£)	Tax Shield (£)	Net Cash Flow (£)	Discount Factor (6%)	Present Value (£)
0	—	—	—	-1,600,000	1.000	-1,600,000
1	450,000	337,500	80,000	417,500	0.943	393,868
2	700,000	525,000	80,000	605,000	0.890	538,448
3	900,000	675,000	80,000	755,000	0.840	633,913
4	1,200,000	900,000	80,000	980,000	0.792	776,252

NPV (Project C): £742,480

Step 3: Project Comparison Summary

Project	Net Present Value (£)
A	643,168
B	792,231
C	742,480

Appendix 3:

IRR Calculation – Project B

Project Information Used

Item	Value
Initial investment	£1,000,000
Corporation tax rate	25%
Capital allowance	20% straight line
Annual tax shield	£50,000
Benchmark discount rate	6%

Net Cash Flows – Project B

Year	Net Cash Flow (£)
0	-1,000,000
1	350,000
2	387,500
3	590,000
4	785,000

Discount Factors at 25%

Year	Discount Factor (25%)
1	0.800
2	0.640
3	0.512
4	0.410

Present Value Calculation at 25%

Year	Net Cash Flow (£)	DF (25%)	Present Value (£)
0	-1,000,000	1.000	-1,000,000
1	350,000	0.800	280,000
2	387,500	0.640	248,000
3	590,000	0.512	302,080
4	785,000	0.410	321,850

Discount Factors at 35%

Year	Discount Factor (35%)
1	0.741
2	0.549
3	0.407
4	0.301

Present Value Calculation at 35%

Year	Net Cash Flow (£)	DF (35%)	Present Value (£)
0	-1,000,000	1.000	-1,000,000
1	350,000	0.741	259,350
2	387,500	0.549	212,738
3	590,000	0.407	240,130
4	785,000	0.301	236,285

Summary for IRR Interpolation

Discount Rate	NPV (£)
25%	+151,930
35%	-51,497

References:

- Arnold, G. (2013) *Corporate Financial Management*. London: Pearson.
- Atrill, P. and McLaney, E. (2019) *Financial Management for Decision Makers*. 9th edn. Harlow: Pearson.
- Atrill, P. and McLaney, E. (2019) *Accounting and Finance for Non-Specialists*.
- Atrill, P. and McLaney, E. (2020) *Accounting: An Introduction*.
- Bodie, Z., Kane, A. and Marcus, A.J. (2021) *Investments*. 12th edn. New York: McGraw-Hill.
- Brealey, R.A., Myers, S.C. and Allen, F. (2020) *Principles of Corporate Finance*. 13th edn. New York: McGraw-Hill.
- Brigham, E.F. and Ehrhardt, M.C. (2017) *Financial Management: Theory and Practice*. 15th edn. Boston: Cengage Learning.
- Brigham, E.F. and Ehrhardt, M.C. (2021) *Financial Management*.
- Damodaran, A. (2012) *Investment Valuation: Tools and Techniques for Determining the Value of Any Asset*. 3rd edn. Hoboken: Wiley.
- Damodaran, A. (2010) *Applied Corporate Finance*.
- DeAngelo, H. and DeAngelo, L. (2007) 'Payout policy', *Handbook of Corporate Finance: Empirical Corporate Finance*, 1, pp. 337–429.
- Deegan, C. (2014) *Financial Accounting Theory*. 4th edn. Maidenhead: McGraw-Hill Education.
- Frank, M.Z. and Goyal, V.K. (2009) 'Capital structure decisions', *Financial Management*, 38(1), pp. 1–37.
- Fairfield, P. and Yohn, T. (2001) 'Asset Turnover and Profitability', *Review of Accounting Studies*.

- Fama, E. and French, K. (2000) 'Forecasting Profitability', *Journal of Business*.
- Graham, J.R. (2000) 'How big are the tax benefits of debt?', *Journal of Finance*, 55(5), pp. 1901–1941.
- Higgins, R.C. (2018) *Analysis for Financial Management*. 12th edn. New York: McGraw-Hill.
- Johnson, G., Scholes, K. and Whittington, R. (2020) *Exploring Strategy: Text and Cases*. 12th edn. Harlow: Pearson.
- Kotler, P. and Keller, K.L. (2016) *Marketing Management*. 15th edn. Harlow: Pearson.
- Lev, B. and Gu, F. (2016) *The End of Accounting and the Path Forward for Investors and Managers*. Hoboken: Wiley.
- Lintner, J. (1956) 'Distribution of incomes of corporations among dividends, retained earnings, and taxes', *American Economic Review*, 46(2), pp. 97–113.
- Lazaridis, I. and Tryfonidis, D. (2006) 'Working Capital and Profitability', *Journal of Financial Management*.
- Lintner, J. (1956) 'Dividend Policy', *American Economic Review*.
- Modigliani, F. and Miller, M. (1963) 'Corporate income taxes and the cost of capital: A correction', *American Economic Review*, 53(3), pp. 433–443.
- Myers, S.C. (2001) 'Capital structure', *Journal of Economic Perspectives*, 15(2), pp. 81–102.
- Nissim, D. and Penman, S. (2001) 'Ratio Analysis and Valuation', *Review of Accounting Studies*
- Palepu, K.G., Healy, P.M. and Peek, E. (2020) *Business Analysis and Valuation: IFRS Edition*. 5th edn. London: Cengage Learning.
- Penman, S.H. (2013) *Financial Statement Analysis and Security Valuation*. 5th edn. New York: McGraw-Hill.
- Pike, R. and Neale, B. (2016) *Corporate Finance and Investment: Decisions and Strategies*. 8th edn. Harlow: Pearson.

Porter, M.E. (2008) 'The five competitive forces that shape strategy', *Harvard Business Review*, 86(1), pp. 78–93.

Ross, S.A., Westerfield, R.W. and Jordan, B.D. (2022) *Fundamentals of Corporate Finance*. 13th edn. New York: McGraw-Hill.

Wild, J.J., Subramanyam, K.R. and Halsey, R.F. (2019) *Financial Statement Analysis*. 12th edn. New York: McGraw-Hill.

Barney, J. (1991) 'Firm resources and sustained competitive advantage', *Journal of Management*, 17(1), pp. 99–120.

Brealey, R.A., Myers, S.C. and Allen, F. (2020) *Principles of Corporate Finance*. 13th edn. New York: McGraw-Hill.

Damodaran, A. (2012) *Investment Valuation: Tools and Techniques for Determining the Value of Any Asset*. 3rd edn. Hoboken: Wiley.

Damodaran, A. (2015) *Applied Corporate Finance*. 4th edn. Hoboken: Wiley.

Eccles, R.G., Ioannou, I. and Serafeim, G. (2014) 'The impact of a corporate culture of sustainability on corporate behaviour and performance', *Harvard Business School Working Paper*, No. 12-035.

Graham, J.R. and Harvey, C.R. (2001) 'The theory and practice of corporate finance', *Journal of Financial Economics*, 60(2–3), pp. 187–243.

Jensen, M.C. (1986) 'Agency costs of free cash flow, corporate finance, and takeovers', *American Economic Review*, 76(2), pp. 323–329.

Koller, T., Goedhart, M. and Wessels, D. (2020) *Valuation: Measuring and Managing the Value of Companies*. 7th edn. Hoboken: Wiley.

Porter, M.E. (1985) *Competitive Advantage: Creating and Sustaining Superior Performance*. New York: Free Press.

Ross, S.A., Westerfield, R.W. and Jordan, B.D. (2022) *Fundamentals of Corporate Finance*. 13th edn. New York: McGraw-Hill.

Shleifer, A. and Vishny, R.W. (1997) 'A survey of corporate governance', *Journal of Finance*, 52(2), pp. 737–783.

Titman, S. and Wessels, R. (1988) 'The determinants of capital structure choice', *Journal of Finance*, 43(1), pp. 1–19.

Arnold, G. (2013) *Corporate Financial Management*. London: Pearson.

Atrill, P. and McLaney, E. (2019) *Financial Management for Decision Makers*. 9th edn. Harlow: Pearson.

Brealey, R.A., Myers, S.C. and Allen, F. (2020) *Principles of Corporate Finance*. 13th edn. New York: McGraw-Hill.

Brounen, D., de Jong, A. and Koedijk, K. (2004) 'Corporate finance in Europe: Confronting theory with practice', *Financial Management*, 33(4), pp. 71–101.

Damodaran, A. (2012) *Investment Valuation: Tools and Techniques for Determining the Value of Any Asset*. 3rd edn. Hoboken: Wiley.

Grant, R.M. (2019) *Contemporary Strategy Analysis*. 10th edn. Hoboken: Wiley.

Johnson, G., Scholes, K. and Whittington, R. (2020) *Exploring Strategy: Text and Cases*. 12th edn. Harlow: Pearson.

Kotler, P. and Keller, K.L. (2016) *Marketing Management*. 15th edn. Harlow: Pearson.

Lumby, S. and Jones, C. (2015) *Corporate Finance: Theory and Practice*. 9th edn. Harlow: Pearson.

Pike, R. and Neale, B. (2016) *Corporate Finance and Investment: Decisions and Strategies*. 8th edn. Harlow: Pearson.

Porter, M.E. (2008) 'The five competitive forces that shape strategy', *Harvard Business Review*, 86(1), pp. 78–93.

Ross, S.A., Westerfield, R.W. and Jordan, B.D. (2022) *Fundamentals of Corporate Finance*. 13th edn. New York: McGraw-Hill.

Graham, J.R. and Harvey, C.R. (2001) 'The theory and practice of corporate finance', *Journal of Financial Economics*, 60(2–3), pp. 187–243.

Lumby, S. and Jones, C. (2015) *Corporate Finance: Theory and Practice*. 9th edn. Harlow: Pearson.

Petty, J.W., Titman, S., Keown, A.J., Martin, J.D. and Burrow, M. (2015) *Financial Management: Principles and Applications*. 13th edn. Harlow: Pearson.

Pike, R. and Neale, B. (2016) *Corporate Finance and Investment: Decisions and Strategies*. 8th edn. Harlow: Pearson.

Ross, S.A., Westerfield, R.W. and Jordan, B.D. (2022) *Fundamentals of Corporate Finance*. 13th edn. New York: McGraw-Hill.

Rajan, R. and Zingales, L. (1995) 'Capital Structure', *Journal of Finance*.