Barclays: Fireside Chat with Fernando Fernandez, CEO

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Speakers:

Fernando Fernandez	Chief Executive Officer, Unilever
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Warren Ackerman

Hi, everybody. I'm Warren Ackerman, Head of Consumer Staples at Barclays. I'm delighted to be here at Unilever House with incoming CEO Fernando Fernandez. Welcome, Fernando. We've got a Fireside Chat. It's an auspicious time. It's your first week in the role, and maybe I'm showing my age, but I think you're the fifth or sixth Unilever CEO I've known. I'm delighted to have the opportunity to spend some time with you and get your thoughts.

So, we're going to kick off with the first question, Fernando. I'm going to start with the elephant in the room and get your thoughts on the circumstances around the sudden change of leadership. Many investors thought Hein was doing a good job, so there's been a lot of surprise on the timing of the change. Can you maybe provide some perspective on what happened? Is there any backstory on why it's happened now in terms of timing? There are lots of theories out there on disagreements on strategy, on portfolio, speed of change. So, it would be great to get your perspective on what happened, why it happened, and maybe something on the timing.

Fernando Fernandez

Yeah. No, clearly. Thank you. Thank you for having me, Warren. Hey, you know, Hein, I feel the board. I agree with the investors. Hein has done a really good job. He put together the basis of the Growth Action Plan. That is our strategic path, a path that the board fully endorses. He took some significant decisions, such as the separation of Ice Cream, a very important portfolio decision. We have implemented the productivity program ahead of schedule. And financial metrics in 2024, I believe, have been really solid. But this is a forward-looking decision. It's not a backward-looking decision. The board believes that for the next phase of transformation of the company, which is fundamentally making Unilever a world-class company in terms of brand creation and market execution, my skill set, and track record are a better fit. So that's the reason behind this decision. There is nothing more on that. Regarding the timing, the question they asked themselves was why wait? What would time give in terms of additional information to substantiate a different decision? They concluded that it was the right timing, the faster the better. And I believe it's a good message for me and for the organization. Not procrastinating the decision when you have enough information to take it.

Warren Ackerman

Okay, how would you describe your relationship with Nelson Peltz and the chairman, Ian Meakins? Anything to say on that?

Fernando Fernandez

Well, let me expand out. My relationship with every board member is very, very good. It's excellent. They have provided very significant and valuable insights for the definition of our strategy. They are absolutely behind me and the management team in making this company a world-class leading company. Ian and Nelson, in particular, have a ton of experience in the consumer sector. Their insights tend to be spot on. So, I listen to them a lot. But if the underlying question behind your question is, am I am Ian person or a Nelson person, probably the right answer is I am a board person. You know me, Warren, I'm my own person. So yeah, that's what I would say.

Warren Ackerman

Can I just maybe push you a little bit on trading? Because with your full-year results, you confirmed your guidance for the full year but said there would be a softer start in the first quarter. Can you maybe reassure the listeners that there are no skeletons in the closet and there's no linkage between the CEO change and any further deterioration in trading? I'm just trying to understand, again, the reasons for the softer start in Q1 and what the building blocks are that give you confidence that we will see an acceleration in Q2 and in the back half to deliver the guidance that you have reiterated.

Fernando Fernandez

Yeah, but many questions within those questions. First of all, no skeletons in the closet. I want to be very clear. We have reaffirmed our guidance for the year and the mid-term, after the separation of ice cream, 4 to 6%. Of course, we put that guidance in the context of a 3% global real GDP growth and 3% inflation as an economic context. That is what we have seen in the world in the last ten years. Things can change. But that's the hypothesis that substantiates the guidance that we have put. First of all, let me remind you what we have done in 2024. We delivered 3.5% growth of revenue in hard currency, margin expansion, 13% of profit growth in hard currency. And we were number one in total shareholder return. So, we believe that the Growth Action Plan is working. It gives us a very good foundation to continue building from now onwards. Regarding Quarter 1, we called out, it was our responsibility to call out the softer start. Markets are softer, pricing is subdued. Consumer confidence has gone downwards in many important markets. And of course, there is a lot of instability. After the American election, with the start-stop-start of tariffs, many other companies have called out an acceleration of performance along the year. What is behind what we believe will be the acceleration of performance? We are landing what we believe is one of our best innovation plans in a long period of time. Now, between March and April, we have held China and Indonesia as a significant drag on our performance, and they will contribute to growth in the second half. I have been in India recently and spent 5 days there. The Indian economy has been a bit softer recently. The September quarter showed something like 5% GDP. But the Indian government and the central bank in India have taken some significant measures. There was a significant reduction in interest rates, close to 500 billion of loans to households in India. They will benefit from that. There are cuts in personal income tax. And fundamentally, that is a very important factor in India in terms of disposable income. There is food deflation now after many years of food inflation. So we believe that the prospects of the economic environment in India will get better in the second half of the year. India is our second-largest business. We need India growing faster than what we have done recently to really be another driver of growth, along with the ones we are having in developed markets and other regions of the world.

Warren Ackerman

It seems, Fernando, obvious that the chairman and the activists want you to go quicker and to unlock value creation more quickly. That was in the statement very clearly. Can you maybe specifically give some examples of where you want to go more quickly and how you're going to unlock value more quickly?

Fernando Fernandez

Yeah, you know, just every business I have run in my career, I have basically divided my approach between what I call perform and transform. In the short term, I believe it's very important to land flawlessly what I mentioned is a very strong innovation plan. We are 'divisionalizing' our sales force in the top 24 markets. It's a very significant organizational change. We believe it will make the company much, much stronger, increase accountability of delivery to the BG Presidents. So, I want to ensure that that happens in a very, very solid way. We need to complete the separation of Ice Cream, and we need to really, by the end of the year, that's a commitment we have made, and we need to ensure also the productivity plan is completed. My intention is to complete that by June this year. So, these are the short-term priorities. I feel in the long term it is all about creating a machine of demand creation in Unilever. I believe I have always said that, in a 1 to 10 scale, I probably score us a 6. Yes, 10 doesn't exist, my mum used to say. But, yeah, I believe that we want to really build a marketing and sales machine in Unilever and that requires a decisive shift to premium, that requires creating what I call desire at scale. Desire has been a very important word or mantra in my time in Beauty, but I believe that applies to any single business group. The consumer now is much more discerning, much more demanding. The phone has changed the parameters of aesthetics, the parameters of the desirability that they are expecting. I'm really committed to a big serious revolution in our superior functionality, aesthetics, and sensorial of our brands. On top of that, when I look at the long run, any company that is a best performer tends to have a couple of very strong geographical anchors. I believe that the US and India should be our geographical anchors in the long run. This is what I did in Beauty, and what I believe has to be replicated in our business as a whole.

Warren Ackerman

In terms of the pace of change, there's been a lot of investor questions about that. Is there any risk that you see that the pace of change could be too quick for the organization? How do you get the balance right? I mean, some investors see you as very dynamic, very operational, good track record, but also quite a hard charger with a lot of energy. You're pretty direct, which could also unsettle some people in the organization. Can you say anything about reassurance about getting the pace of the change, because it feels to many people the pace has already been quite quick?

Fernando Fernandez

You know Warren, I have been 37 years with Unilever, and I have never crossed paths with an employee that told me, Fernando, we are going too fast. The contrary, some people say, why are we going so slow, or Fernando, tell me why I'm working on this. That is completely useless. Or Fernando, why do we have a process of sequential decision making when things can be decided much faster? So, I will not reassure you in terms of slowing the pace, because I believe that's not what we should do. I believe we have great talent. I want to ensure that we shift this company outwards and forward, and that everyone working in Unilever is absolutely focused on creating demand. I believe this will be very well received by the company overall. They know me. They know what my priorities are. That's the way I have run business for 20 years. And I continue thinking that will be the approach.

Warren Ackerman

Can we give a little bit more detail on your experience in Brazil, in the Philippines, and running the Beauty and Wellbeing division? You talk a lot about volume mix and gross margin as the 3 KPIs that really drive value creation in staples. How can you take those experiences that you've had in those three different areas, and then apply them to the unique organization as a whole?

Fernando Fernandez

Hey, there are a few principles that I believe are a pattern in every business I have managed. If I mention some of it, I like to concentrate resources in segments and categories where I see a significant profit pool and where we have the right to win. My time in Latin America, for example, was defined by the mantra 'deos first, then the rest.' We have a very interesting category there where we have the right to win, very profitable, very good returns. The second thing you need is productivity as a habit, not as a program. Productivity as a habit ensures that we release resources to invest significantly and competitively behind our brands. I'm a great believer that there are always inefficiencies in the company. If you tackle them, you release money that you can put behind your brands and build a virtuous circle of volume growth, investment, more profit, more volume growth. The third point is a decisive shift of our portfolio into more premium, more desirability. Investing heavily in product, investing heavily in activity systems of marketing that really drive our brands forward. These are some of the key patterns of what I have done. I'm obsessed with volume growth. I believe that investment for volume growth is a key feature that I have always followed. Innovation is a key driver of volume growth. Renovation is a key driver of pricing. So, innovation for volume, renovation for pricing is another pattern. The last point I will mention is related to my experience in developing and emerging markets. You have to build portfolio resilience to deal with economic volatility. And you have to have clever pricing management to deal with that. So, I feel the resilience portfolio, resilience against economic volatility has been another feature. All this is possible if you are surrounded by great people. I'm uncompromising on talent and I'm uncompromising on a winning mindset. This is what the company in Argentina injected into me in my early years of my career.

And it has been something that I tried to inject and infect the whole organization with.

Warren Ackerman

Fernando, if I had to pin you down on your near-term priorities, if there are three kind of near-term things that you want to see done, what would they be? And then what would be your three kinds of medium and longer term? I'd love to just kind of get your idea on prioritization because that's obviously key.

Fernando Fernandez

Yeah, I mentioned some of that in the short term. Help the business groups to really shift decisively resources into the most profitable strongholds. There is an element of risk on that, and I feel I am prepared to share the risk with them. I feel that's my role. As I mentioned, landing our innovation plan flawlessly in a moment in which we are decentralizing the salesforce is a very important point. Fixing some of the geographical issues we have, China, Indonesia, accelerating in India is very important for me at this point in time. And of course, completing the separation of Ice Cream and finishing with the productivity program because we need to leave that behind and give our people a clear reason to believe in the future growth of the company. In the long run, as I mentioned, make the US and India two key anchors of our portfolio. Make our best brands travel fast. We have not been good enough in rolling out our brands globally. I always say that Unilever is a bit of a federation of local and regional brands. I believe in the long run; we need more widespread presence of our strongest brands. We have made a significant step with the top 30 brands and the focus we are putting on them, but I believe we can go faster in rollout, continue driving optimization of our portfolio into premium with a good program of bolt-on acquisition and disposal. So that's basically what I would do.

Warren Ackerman

You mentioned portfolio. There's been a bit of speculation that the change means that the board wants to go faster on portfolio change and perhaps consider a more transformational change with question marks on the Foods portfolio. I want to try and clarify that, because at the CMD you raised your ROIC target from mid-teens to high teen, which I read to mean no big deals. And you also said that there was only €1.5 billion that you would invest in portfolio change. Is that still the case or has there been any change of view from either you or the board, particularly on the point around bigger deals?

Fernando Fernandez

No change of view. I mentioned in the Capital Markets Day that our ROIC now is close to 19%. So, I believe it's in the top third of the sector. We like that. My view on transformational acquisitions, I call it the paradox of transformational acquisitions. You can only do it from a position of strength. And if you are in a position of strength, why would you do it? We are happy with the approach we have had in terms of bolt-on M&A focused in the US and India. The US is a very important market because it's probably the only market that gives you two things. It gives you enough local critical mass, and it gives you a platform for global brands because American brands tend to travel. We are very happy with the progress we have done in our portfolio in the US. I believe it has gone a bit unnoticed by the market, but after the separation of Ice Cream, we would have a business there of around €11 billion, close to €3.5 billion in prestige beauty and health and wellbeing, with 15 consecutive quarters of double-digit growth. An extraordinary position in deodorants, an extraordinary Dove brand in skin cleansing, Hellmann's in dressings with a 45% share, two times the share of the second player. So, our US business, we will not be the largest company in the US, but I don't see many companies with a kind of growth footprint that we have in the US. In India, we have just completed the acquisition of a prestige beauty brand called Minimalist. We have an exceptional position in India. But we know that the portfolio that brought us here is not the one that will keep our position in the future. There are significant consumer preference changes. There are significant changes in the channels. We need to ensure that the portfolio moves in line with the changes. We will not blink on that. We will do whatever is necessary to ensure that the kind of positions we have in India, 55% in haircare, will continue like that. So, no transformational acquisitions on the table. We are happy with the kind of approach, probably some faster acceleration in the process of disposals. We always talked of pruning the portfolio. I'm in the camp that when you have taken a strategic decision, it's better to act fast. So probably you will see a bit more pace.

Warren Ackerman

You mentioned at the CMD €1 billion of revenues are non-core in the food portfolio, mainly Europe. We've seen a few small disposals, but it's not really been happening that quickly. So where are we on that? And then the bigger question I suppose is the bigger food portfolio. You mentioned Hellmann's, and it seemed to me that Hein was quite wedded to the Foods portfolio. Hellmann's and Knorr are scale brands with big market shares. They're good on cash. They help in the EM. He always said there would be big dis-synergies. Can you just clarify your view longer term on the Foods portfolio? Does it have a place in the portfolio? And do you agree on the dis-synergy points? So, two questions. One is on the Europe non-core and then the bigger one on the strategic outlook.

Fernando Fernandez

Let me start on the bigger one. Knorr is our second-largest brand, Hellmann's is our fifth-largest brand. They are accretive in margin. They are accretive in terms of cash generation. They have a huge return on invested capital. So, they are 60% of our foods business. And the two categories in which they play are 70% of our food business. So, our food business is not a classic food business. I internally call it edible Personal Care because the margin structure of that business is very similar to the Personal Care one. So, it's a very attractive business, giving us a lot of flexibility. We are committed to growing that business. That's what I can say about Foods now. Of course, there is around €1 billion of local brands fundamentally in Foods Europe that we believe don't fit well with our portfolio going forward. They are not strategic priorities. We have another probably half a billion of other foods and other categories brands, particularly in the smaller markets of Unilever, that we don't see the possibility to scale. Probably we will also act on that. My intention is to act on all of these, probably at a faster pace. But of course, the market condition has to be there to ensure that happens. So that's where we are in the portfolio. Many people say that I'm a hair brand guy. I have worked in hair care for many, many years. I was the person that disposed of Suave in the US, and Suave was the highest penetrated brand in the hair care market in the US, but it was a perennial decliner. It was in the value segment. We didn't see a good strategic fit in the long run, and I didn't have any problem disposing of the brand. So, what I want to say with this is that every brand in our portfolio, every category in our portfolio, has to earn the right to remain in our portfolio. I don't have any emotional engagement with any brand when it comes to portfolio management. Time will tell what we do with our portfolio in the long run, but that’s the position at this stage.

Warren Ackerman

Maybe switching gears to Ice Cream, there's been a lot of discussion around that. My question is, are there any other options for Ice Cream? How much of a distraction has it been? Would it still not be better just to do a JV or a sale and then return cash to shareholders, even if it meant a higher tax liability? Are you definitely happy now, as the new CEO, that you're going down the right path with the primary listing in Amsterdam and secondary listings in London and New York? Why wouldn't you still consider a twin track or incorporating it into the US?

Fernando Fernandez

Well, you know, it's just that I'm not coming into the CEO role from whatever. I’m coming from the CFO role, and I have been part of all these decisions, so definitely, I'm aligned with the decisions that we have taken. Let me give you a bit of background first. We separated Ice Cream because we always saw it as a clear outlier in our portfolio. Complete different capital intensity, seasonal business, our infrastructure in rural areas doesn’t help a lot with the Ice Cream business. So, I'm absolutely convinced that this separated and independent ice cream company, with a different ownership structure, will make that business thrive. At the same time, for the remaining Unilever focus in our portfolio, we believe it will have an impact on the quality of the work that we will do. So, I'm absolutely 100% behind that decision. In terms of the mode of separation, we analysed a few factors. First one, maximizing value for the shareholders. Disposal and a demerger don't have the same tax impact. Second, minimize the technical flow-back or the forced selling is an important factor. Very importantly, ensure no operational disruption, neither in the ice cream business nor in the remaining Unilever. The fourth point, important also, define that in a time frame that we believe would be one that will be manageable and that wouldn’t imply distraction for the management, and we want to do this by the end of the year. So, we continue thinking that the demerger and listing is the most logical outcome of this. But of course, we always have a fiduciary responsibility to analyse any other option. It has to be a very credible option to really ensure that we don't follow this path at this stage. We are running ahead with the demerger and the listing. We have 11 workstreams, absolutely on track. I reviewed that last week. The progress is very significant. We are setting up a stand-alone operation in ice cream that by July should be operating in that way. I stick to the decisions that we have taken.

Warren Ackerman

In terms of numbers, you talk a lot about hard currency EPS. When you do spin ice cream, would it be EPS accretive? Neutral? Dilutive? Can you share some numbers in terms of the hard currency EPS impact? Because there are some concerns around scope and that could be a bit dilutive.

Fernando Fernandez

Ice cream is 9% of our profits and in terms of cash contribution is less than that. So, when we separate ice cream, the shareholder will receive shares of the ice cream company and the Unilever company. What we say is that on a like-for-like basis, we are committed to earnings per share growth in the business. So that's what I can say at this stage. Of course, there are many decisions that we have to take now, but that's what we have promised, and that is what we will deliver.

Warren Ackerman

What is the investment case on ice cream? How much margin upside is there? Can it grow in line with the refreshment average? You've got great brands, but the margins still seem to be quite low.

Fernando Fernandez

Honestly, I'm a bit critical of how we have managed the ice cream business in the past. I believe we have done a lot of progress last year. I believe that some of that progress will also be shown this year in a better performance. If you look at some other ice cream companies, I will not mention the name, but companies that have a significant exposure even to private label that depend a lot on licensing brands, they have a much better margin structure than the one we had. So, I believe the possibility of unlocking significant profit growth in hard currency in the ice cream business is incredible. We have three out of the four major global brands. We have a significant global presence in the business. I believe there is a lot of scope in improving our supply chain. It would require some capital, but even before allocating significant capital to improve the business, I believe that there are profit expansion opportunities just through better managing what is a complicated business. I always say that ice cream requires the marketing of Beauty and the operational grip of beer or soft drinks. I believe that our marketing has been good. Our operational management has been very far from a beer company or a soft drink company.

Warren Ackerman

I want to move to premiumization because as long as I've covered Unilever, it's been seen as a kind of a mass market FMCG company. But it's morphing into something different, more premium, more focused. But when I look at Europe and North America, the percentage of the portfolio in premium still looks quite low. There's been progress, but the starting point is low. So, my question to you is, how big does premium need to be in Europe and the US? How do you turbocharge premiumization and what's the best way to get there?

Fernando Fernandez

Let me give you some numbers. If I look at, let's say, three aggregated segments, premium, mainstream, and value, we have around 20% of our business in value, the other 45% in mainstream. I would like to have around 50% in premium, that would be our ideal position. Different situations in Europe and the US. In the US, we have allocated a lot of capital into M&A that has transformed our business in a dramatic way. I would say that's the business now that the profile is fundamentally a Beauty, wellness, Personal Care, and Food business. The profile of the business, when you consider that close to 35% of the business is in Health and Wellbeing and Prestige Beauty, it’s already a very significant contribution of the premium segment. So, the US business now is a positive outlier when it comes to the premium segment for Unilever. In Europe, it's different. Both Hein and I have been very clear that we are both fans of a better balance between emerging markets and developed markets growth. We have neglected Europe for many years. That has changed in the last couple of years. We have innovated at scale in Europe, and you have seen our volume growth in Europe close to 4% last year. I cannot say that Europe will be for us at 4% volume growth in the long run, but this has given us a lot of confidence that if we put our best technology behind our best premium brands in Europe, there are significant volume growth and positive mix that can be unlocked. So, the direction of travel is clear. I like premium. I believe, if you look at my career, I have always driven premium. But that cannot be wishful thinking. Getting a portfolio that is more premium requires injecting desirability at scale. I'm a great believer in that. That will probably be my mantra in the next few years. Desire at scale, I want to ensure that this is injected in our marketing philosophy. It has not been in the past. So that's probably one of the changes I will see.

Warren Ackerman

I want to switch gears and talk about a few geographies and especially Asia, because as long as I've been covering Unilever, emerging markets were a real powerhouse. They still are the real powerhouse. But what we're seeing is very nice growth in Europe and North America. And some of these Asian markets are lagging, you know, China and Indonesia. We saw China down 5%, a bit of a reset going on. Indonesia has been a long story and you've been trying to get that improving, but it's been a struggle. The question I'm getting from investors is, is there something bigger going on? Are you actually behind the curve with how consumers and channels are changing? Do you need to rethink your approach and go much faster in terms of digitalization and channel shift to actually appeal to those aspiring Asian consumers? And then when do we actually get Indonesia and China back into solid growth?

Fernando Fernandez

Yeah, it’s a very important question. First of all, we are very proud, and we like a lot our position in emerging markets. I'm sure that if you were running Unilever, you would not swap our Indian business with any other company. And probably, you would not swap our Indonesian business. So, we like the kind of positions we have in Asia. It’s not only Asia, we have an incredible business in Latin America. Our African business is already the size of Indonesia. We are making singles in growth there. The demographic benefit that emerging markets provide is a significant element for fast-moving consumer goods business. If I look at the history of Unilever in many of these markets, Indonesia has had a serious long-standing crisis. It has been a clear outlier. I went to run the Philippines in 2008, and our Philippines business at that time was €450 million. Now it is €1.3 billion. So, we have added €8 to €9 per capita in 15 years in the Philippines. In the same period in Indonesia, we have done nothing. There are many reasons for that, and we have reflected on that. But there is a very strong local competitor there, which has anchored our pricing for a long period of time. I believe that our marketing has not been of the quality that the consumers in Indonesia deserve. But Indonesia has been an outlier. There are green shoots. I was there in August. The last year Indonesia has been a bit strange because of the Middle East conflict. There was a clear consumer backlash against international companies. It has affected many of the big American names also. In our case, the response was significant promotional activity, which generated a lot of price instability. Our distributor systems were put in disarray. I went there and said, we need to reset here. When you reset your distributor systems, it takes some time. But the last few months we have been beating our forecasts in Indonesia. It’s far from being what I would like it to be when you look at the run rates that we believe we can have in Indonesia, but I see Indonesia contributing to growth in the second half of the year. China is a different thing. For many years we went for an all-in strategy. But the truth is we arrived in China probably late. We didn't have the portfolio, particularly to attack premium Beauty in China that we have now. Our strategy in China now is a much more selective growth. We have excellent businesses. Our hair care business is very strong. Our laundry business is very strong in one region of China. We have an excellent food service business in China. We are making serious in-roads with some brands like Hourglass or Olly in vitamins. But it's a much more selective strategy. There has been a dramatic change in the e-commerce side of China, from the likes of Alibaba to the likes of Douyin and Pinduoduo. Our route to market in China is like Pinduoduo or Douyin was seriously intermediated. We are now adopting a much more direct approach in the route to market. That also has some kind of short-term impact. So, I see China also contributing in the second half of the year.

Warren Ackerman

I was going to ask you about India because at the CMD, the comments on India were pretty bullish. You talked about it as the biggest near-term, medium, and long-term opportunity. But the performance has still been pedestrian, missing numbers every quarter over the last 3 or 4 quarters. So, my question is, when does growth pick up? Are you saying it's just mainly a macro issue? And what can you do to turbocharge premiumization? You bought Minimalist. You talked about a 900 bps increase in premium. Is that enough? And why should we be confident that Unilever will get the fair share of the growth in Beauty, which is going to be the next battleground in staples over the next decade when you've got the likes of L'Oreal also trying to chase that same growth? So, when do we actually see it come through?

Fernando Fernandez

What I feel with the slowdown of China, everybody has rediscovered the US and India. Our position in India is exceptional. We have great brands; we have a great portfolio. In the last three years, we have gained share. The market has been softer. Food inflation was very significant in India. Food inflation affects 80% of the household. Particularly vegetables inflation has been crazy. The economic environment in India will get better in the second half of the year. There are significant changes in channels in India. The rise of affluent India is very important. There are 60 million households of the 320 million households in India. They have serious money now. The economy, like the population in India, is 430 million. It's at 30%, so it's probably the lowest in the world. There are 80 million female workers in India in a 750 million female population. Every time women get into the labour force at scale, companies like Unilever really have a lot of tailwinds. I'm very bullish about the long-term prospects of India. Regarding the changes in consumer preferences and channel changes, are we moving fast enough? The answer is we have to move faster. I was in India. I spent five days there a couple of weeks ago. You see, for example, the phenomenon of quick commerce. Quick commerce is now 2% of our sales. We expect quick commerce to be 10-15% in the next three to four years. India is a very special place because richer Indians and poorer Indians live in close proximity, which provides demand and supply of labour. That made quick commerce a logical channel to grow. If you ask me, do you prefer quick commerce to marketplace in terms of channel development? Yes, of course. Quick commerce is a limited assortment channel. For companies like us that have such a presence in India, that's a good development of channels.

Warren Ackerman

Can you make the same margins in that channel?

Fernando Fernandez

The mix in that channel is much better. I cannot say that like-for-like the margin is better, but what I can tell you is that the mix in that channel is favourable. That in the whole picture will drive our margin faster. I'm very optimistic about India in the long run. We are competitive. We have a great organization. We have great people. There are things that have to be adjusted. Yes. But let me tell you something. Some people believe that we have headwinds in all the portfolios. The only category in which we have some headwinds due to channel and segment development is in Beauty. We have tailwinds in Home Care. We have tailwinds in Personal Care. We have tailwinds in Foods. So, it's not that we have a portfolio that has to be completely rebuilt in India. It's not the case. Probably where we have more things to do is in Beauty because the change will be faster there. The acquisition of Minimalist is fundamentally an indication of what we will do there to really move our portfolio fast.

Warren Ackerman

I want to turn to Latin America, your old stomping ground. You talked about Latin America being very strong, but we have seen volume slowing. I think it was flat the last quarter. And there's talk of retail destocking. So, the question is, how long do you think that continues? And then how do you feel about Brazil and Mexico in 2025, more medium term as well?

Fernando Fernandez

Well, I'm not very objective over Latin America. I ran Brazil for nine years. I ran Latin America for another four years. It has been a spectacular region for us in terms of roles. We have incredible market positions across Latin America. Brazil, Argentina, Mexico. Let me give you a bit of a structure of our business in Latin America. Brazil 50%, Mexico 25%, Argentina 15%. Different situations. Let me start with Mexico. The start-stop-start of tariffs is really having a significant impact on the Mexican economy. The Mexican peso was very strong for a long period of time. In the last year, there has been a significant devaluation that brings inflation in place. So, I believe that Mexico has a macro component that we need to see how it evolves. If there are 25% tariffs into Mexico, there will be an impact on the economy that will impact the currency. We will have to wait and see how all these things develop. Our position is very strong. Our shares are very strong. We have a great Food business, a great Personal Care, and a great Beauty business there. In Brazil, there is a short-term issue. Brazil tends to operate with positive interest rates, real interest rates. But if you look at nominal interest rates now, they are 14% and inflation is at 4%. So, the real interest rate went from 3-4% to 10%. If you look at the normal retailer in Brazil, they do 3-4-5% of operational profit. Now they can do 10% in financial profit. So that fundamentally puts pressure on stock holding in Brazil. We are seeing some pressure in the short term, particularly in big volume categories like laundry, like Home Care. Our Personal Care and Beauty business continue thriving there. So, I believe that the situation in Brazil is related to some fiscal position of the government that has to be adjusted.

Warren Ackerman

But how does that adjustment happen? Are stock levels coming down now?

Fernando Fernandez

The stock levels are coming down. But there is probably a bit more happening, particularly in categories like Home Care. Argentina, the government is doing the right things, but that generates a contraction of the economy in the short term. Last year, our corporate share in Argentina went from 49% to 53%. So, it's a huge increase. Many of our international competitors have abandoned Argentina. Now we compete in Argentina fundamentally with local players. But our competitiveness continues evolving in the right way. There is some pressure in the market now because I believe for the long run what is happening in

Argentina is good. But in the short term, fiscal adjustment tends to have some impact on the contraction of the economy. The purchasing power of the consumers is feeling that.

Warren Ackerman

You mentioned tariffs in passing. You mentioned it in relation to Mexico, but obviously China, Canada. Can you maybe talk a bit more broadly about tariffs and kind of risk mitigation that Unilever's looking at with tariffs? I know it's volatile. Every day seems to be something different. But how do you think about it from a planning point of view?

Fernando Fernandez

First of all, let me tell you about the US. It has been driving our result this year. In the last three years, we put close to €4 billion of capital in the US. Between acquisitions, investment in factories, we are well positioned in the US. As I mentioned before, it is a key market for us. We are investing heavily there, and we will keep investing heavily there. When it comes to the supply chain, after Covid, we made a serious effort to make our supply chain more flexible, in terms of more local, for local, more reliable. If you take a country like the US, close to 87% of our revenue is produced on a local basis. Tariffs have impacts in different dimensions. One is the direct impact of the tariffs in the flow of goods between these four countries: China, Mexico, Canada, and the US. The second is, of course, it gives some space for producers of material locally to charge more. We believe that effect for us is limited. We can put mitigating actions in place. We can reroute our supply chain to serve the US in case of need. So, the mitigated effect of the tariff increase is something that is not material for us. There is a second effect, which is what tariffs can imply in terms of currency instability. In a context of tariffs going up, emerging market currencies tend to depreciate. That implies more pricing in the D&E. That has to materialize. We have seen that in the first round of announcements of tariffs. We have not seen that in the last few weeks. But that's something that we are following in detail. On top of that, usually when there are tariffs, there is some impact on economic growth. I feel Mexico and Canada will be much more affected by this than the US. So, these are two markets in which our revenue is in the local currency. So, there is going to be some effect, but it's not a dramatic effect. We don't see a dramatic effect in Unilever. You look at these always in relative terms. Given our global supply chain footprint, our flexibility in our supply chain, we will suffer much less than most other players from tariff effects.

Warren Ackerman

I want to move to gross margins. One of your focus areas, Fernando. Your gross margins recovered from 40 to 45%. My question is quite simple. What is the real long-term gross margin runway in this company? Why can't this be a 50% plus gross margin business? I mean, I'm thinking out to 2030 to the end of your GAP program. I was struck by your comment at the CMD that every percentage point of incremental volume is coming in as a gross margin closer to 60% plus. So here we are at 45%. What is your vision of where you want this to go long term?

Fernando Fernandez

Yeah, it's absolutely right. The marginal contribution, the gross margin on the next unit of volume, comes on average out of the company at close to 60%. If you take Beauty, it's 65-70%. If you compare Personal Care, it's 62% or whatever. So that's the reason why volume growth is so important. The absorption of fixed costs is dramatic and I'm a big fan of that. We are happy with what we have done in gross margin last year, 280 basis points of margin increase. But I think it's important also, if you look at the quarter four results that were published by the sector, I believe we had the highest expansion in gross margin of the whole sector in quarter four. It's not only in the full year but also in quarter four. There are four drivers of gross margin improvement. One is volume leverage. The second is mix. The more you grow Beauty, Personal Care, that has a significant impact. The third one is procurement interventions that we are doing in some fundamental value chains of some fundamental materials for us. I always give the example of surfactants, like I mentioned fragrances, etc. We were one of the few companies that were completely dependent on third parties for that. Now we are making some vertical integration in some key materials that we believe will improve our procurement power. The fourth one that is very important, I have mentioned many times, we are spending capital expenditure around €2 billion a year. In the past, we used to allocate around 30% of that to margin expansion initiatives. Now we are allocating 55%. So, if you think about that number, that's basically €1.2 billion. You take 3 or 4 years of payback. You have €300-€400 million that you can expand profits through this kind of allocation of CapEx. So, we have a very disciplined approach now. I'm a great fan of fixed spending in our factories. I always tell our factory directors; your role is to run this factory without a penny more. I don't care how much more volume you put. So, leverage has to happen. I cannot tell you what our long-term ambition is, but I expect that we will continue driving gross margin to ensure that we can keep investing behind our brands.

Warren Ackerman

On the procurement side, I think your raw and package is like €25 billion. It's a big number. All these interventions that you're making, what's in scope? How should we think about that? Because you've been mentioning it more and more. Fragrance, a €100 million investment, surfactants, palm oil. Can you maybe just frame it for us?

Fernando Fernandez

Let me give you an example of fragrance. We invest in fragrance around €1.2 billion. If you compare that number with some of the key fragrance houses in the consumer division, it's not a small number. We continue working in partnership with all the fragrance houses, but we want to develop internal capabilities also to ensure that the value in the value chain is better split. We have done surfactants in the US, for example. Surfactants are very important in liquids. We were the only player with no participation in the whole value chain. That's a monopolistic position of some supplier there. We have invested in that. We are improving. Overall, our intention is to have our procurement inflation be 1% below the market procurement inflation, the market material inflation. That's significant. In a €27 billion spend, it's a significant number. That's a challenge I have put to our supply chain guys. We continue doing… there are 12 families of materials in which we are making interventions. I cannot give you much more detail, but there are 12 families of materials in which we are working in a very clear, structured, articulated way. I have brought game theory at scale in our negotiations. I'm a great believer in that. All that is resulting in a better innovative procurement strategy.

Warren Ackerman

I want to move to brand and marketing. Fernando, it's really stepped up, from 13% of sales to 15.5% of sales. The question is, does it begin to plateau from here, or does it keep increasing as the portfolio shifts more to beauty? And then if you get ahead on productivity, can the BMI be stepped up in a dynamic way? I'm just trying to understand because you're such a big number, what the incremental returns on that spend are because you're moving to a social-first advertising strategy, 30% of total spend to 50%. I mean, that's huge. Content going up, not 20%, 20x. That's huge. So, it sounds like a massive change to me, more influencers. Can you maybe just walk us through that on the return side and how confident are you that this is the right move at the right time?

Fernando Fernandez

It's probably the biggest change in our company going forward. Let me first go into the numbers. We spent 13.1% in 2022. We moved to 14.3% in 2023, 15.1% in the first half of 2024, and 15.9% in the second half of 2024. If I remember all these numbers, it’s because I consider them very, very important. There is an implicit recognition that our level of investment in 2022 was noncompetitive. We are happy that our improvement in gross margin has allowed us to really fuel investment. I believe that this number is in competitive levels. Our shares are starting to show that the level of investment is competitive. I have a principle that I took from an old boss that being consciously uncompetitive is a criminal act. So, we will always be competitive in investment. Regarding the quality aspect of our investment, today brands are by default suspicious. Messages from brands coming from corporations are suspicious messages. So, creating marketing activity systems in which others can speak for your brand at scale is very important. Influencers, celebrities, TikTokers, etc. There are 19,000 zip codes in India, there are 5764 municipalities in Brazil. I want one influencer in each of them. In some of them, I want 100, but at least I want one in each of them. That's a significant change. It requires a machine of content creation very different from the one we have had in the past. AI plays a very important role in that, but I'm absolutely committed. This is one of the things I will drive like hell in the company in the next few years. Desirability at scale and marketing activity systems of ‘others say’ at scale will be the fundamental principles of our marketing strategy. I'm 100% behind that. I need to really ensure that that happens in the company.

Warren Ackerman

Will returns be higher?

Fernando Fernandez

The returns, we have now the UBS methodology to measure the performance of our brands and their impact on brand equities. We have a very clear understanding of what the return on all these kinds of things is. The point is not if the returns are higher versus the past, the point is the returns are higher versus any alternative allocation of funds today and versus any other option. They are higher returns.

Warren Ackerman

I want to move to Prestige, Beauty, and Wellbeing because from small beginnings it's now growing rapidly. I think it's broken through €4 billion of revenue, with 14 consecutive quarters of double-digit growth. You've got brands like Liquid I.V. approaching €1 billion of revenue from a small base when you acquired it. How much more runway is there for that brand? And then you've got the new jewels, K18 and Nutrafol. Can these be the next billionaire brands in the future? I'm just trying to understand, you’re CEO now, what is the vision long term for Prestige Beauty? I know you got a new head of Prestige and Wellbeing, right? If you look out to 2030, how big can it be and what brands are you most excited about within the portfolio? Can investors be confident that when you acquire brands, you acquire the right ones that are not just faddish and have real appeal for the long term? So, the whole Prestige Beauty and Health & Wellbeing strategy.

Fernando Fernandez

First of all, the number you quote is directionally right. Let's say that we are around €4 billion of turnover. When we acquired those businesses, they were around €1.7 billion. The average tenure is around five years now. So basically, in five years, we have doubled that business. You have seen that in the results, particularly in our US portfolio. Our US business in the last couple of quarters grew 7%, with volume more than 5%, and Prestige Beauty and Health & Wellbeing has been a significant contributor to that. It’s true also that in Prestige Beauty, we have seen a softening in the market in the last couple of quarters. Wellness continues flying. There are some spectacular successes. Liquid I.V., we acquired the brand in 2020. It has multiplied by seven and it's now an €850 million brand. Nutrafol, we acquired the brand in 2022. It has multiplied by three and is now a €650 million brand or something like that. So, they are definitely on their path to being billion-euro brands. There are other brands doing very well; Olly in wellness, Hourglass in Beauty, Tatcha, Dermalogica. We have some dogs also. Not all the acquisitions work as they should, but we have now a very clear blueprint for acquisitions. They have to be digitally native brands. They have to be in a super growth stage. They have to be brands in which our R&D capabilities can add value to the innovation process. They have to be lifestyle brands and very strong in some narrow verticals to ensure exceptional profits. Fundamentally, they should be brands that not only appeal to the American consumer but have the potential to travel abroad. As I mentioned before, I see the fact of being a federation of local and regional brands as an issue for Unilever, and I want to ensure that we have a portfolio of more global brands in the future. It's a great business. The intention is to grow it faster and roll it out faster. You probably will see an acceleration of rollout. It's very important for our India business. Indian consumers tend to have American brands in high regard, different from the China situation in which at the time the Beauty Business exploded in China, we didn't have a portfolio ready. Now we have a portfolio ready, and we will deploy the portfolio at the right time. On top of the acquisitions that we will do locally. These are very important businesses. We have seen some change of leadership; Vasiliki Petrou, who did an amazing job for us, has decided to retire. We replaced her with an excellent resource, somebody that we knew from Unilever before but was running a jewellery company: MC Gasco-Buisson is an extraordinary talent. I'm sure she will take the Prestige Beauty business to new heights.

Warren Ackerman

I want to talk about innovation. Your 6Ps strategy has been a real driver or you call it UBS. You're focusing on 12 big launches. You're trying to create €100 million platforms that are Unmissably Superior. You want to make markets, not steal market share. It's a big change in mentality. How confident are you that this 6Ps strategy is embedded deep in the organization? What innovations and technologies are you most excited about? Because that was a big thing for Hein. Are you going to take that and extend it further? Are you happy with where it's at?

Fernando Fernandez

Our science has been historically better than our marketing. I look at our science in two different buckets, the new flow of science that is there and the investment that we'll do in the future, but also the stock of science that has not been leveraged in our portfolio. There is a lot of that. When I took over Beauty, if I look at the five key scientific streams of skincare and haircare, they were deployed in 22% of the revenue. A few years later, they were in 45%. I would be surprised if something similar doesn't happen in the rest of the portfolio. So, I will be really looking at that seriously. Science and better marketing in the premium segment are fundamental in developed markets, where the concentration of retail and changing of channels is very significant. I am absolutely committed to this idea of focusing behind big bets. I believe that the numbers don't reflect the opportunities we have. The numbers of all the innovation plans don't reflect the ambition we should have with some of the science that we have available. The intention is to really move faster, move at a higher scale, and ensure that the geographical coverage of our key innovations, at least in the top 24 markets, happens in a much shorter time frame than it has happened in the past. That's something I'm very keen on making happen.

Warren Ackerman

I want to talk about the mid-single-digit organic growth ambition in 2026. What is your conviction level that can be delivered because the consensus currently is not there? Consensus is kind of like four, or below or around four. And then related to that, when ice cream is out of the portfolio, EM becomes a bigger weight. So, is hard currency EPS still the priority? How do you deliver that? And the top line, mid-single-digit stepping up at the same time with this volatility and deliver both top line and bottom line and deliver that top third consistently. What needs to happen?

Fernando Fernandez

I'm a hard currency guy. Investors put pounds or euros or dollars and they don't want Argentinian pesos. Revenue growth in hard currency driven by volume growth and mix, profit growth in hard currency driven by top-line leverage and gross margin expansion is what guides my strategy. Financial metrics have to say it all, and these are the financial metrics I would be looking at. It's very important for you guys to know also that if you look at my remuneration and the leadership executive remuneration now in the long-term incentives, more than 80% of all remuneration is hard currency linked remuneration. It's a very important change. It was not like that a few years ago. That drives different behaviours in the company. We look at metrics in a very different way to the way we used to do it. Regarding the 4 to 6% USG underlying sales growth guidance, it is based on a hypothesis of 3% GDP growth. If the inflation is higher, we need to revise. If the GDP growth is getting lower, we need to revise. But overall, assuming the hypothesis, we are confident that the kind of changes we are doing in the company, the focus on the new innovation platform, multi-year scalable innovation platforms, what I call excellence in demand drivers, multi-year scalable innovation, desire at scale, social first expansion, and better in-market execution, will drive the company into that kind of level of growth.

Warren Ackerman

The CEO is a very different job to the CFO, Fernando. I remember Alan Jope telling me that when you get to the top of a company, you think you're at the top, but then you realize it is actually an inverted pyramid. And you actually then have governments and regulators and other stakeholders that maybe you don't sort of think about at the time. So, are you ready for that? You know, you're an operator, but there's other stuff that's going to be out there. How will you manage those additional responsibilities, and do you need to bring in new talent, or are there gaps in terms of people or skills that you need to change upfront?

Fernando Fernandez

I believe the size of the inverted pyramid is as large as you want that inverted pyramid to be. Let me be very clear. I will be a front-line CEO. My focus will be being all over our brand plans and being all over our market execution. That's where I will allocate 95% of my time. I know also that Unilever has a great reputation and preserving that reputation with all our stakeholders is very important. I will surround myself with a top-notch team to ensure that I can deliver on that space also. But my personal focus will be on demand creation and market execution. I really believe, as an economist, I look at everything in terms of return. The return of my time will be higher if I put it in those areas. So that's the initial point. Front-line CEO, absolutely focusing on demand creation and market execution.

Warren Ackerman

The other thing I want to talk about is the CFO. Obviously, you and Hein were a good foil for each other. You've got an interim CFO, Srinivas Phatak. But you're starting an internal and external search from my understanding. What attributes do you look for in a CFO? For you? What would suit you? Your style? And when can we expect to hear confirmation of a permanent CFO appointment?

Fernando Fernandez

First of all, let me tell you a bit about our acting CFO, Srinivas. We call him Srini. He was the CFO of Hindustan Unilever between 2017 and 2021. The business grew at 7% in that period. Cash conversion was about 100%. Gross margin expansion was more than 300 basis points. I believe the market cap doubled in that time for Hindustan Unilever. So, he has an incredible track record. He has been my key person in the finance team during my period as CFO. As you know, I was an unorthodox pick for CFO. I had 27 years of oxidation of my financial knowledge when I came into that role. So, Srini was very, very important, and of course, we have a very talented team surrounding him. So, he's a great pick to be the acting CFO. My responsibility is to ensure that we have the best possible CFO, and we will have a very thorough process with internal and external candidates to define who is the best person to partner with me in the next few years. It will probably be a six to twelve-month process. We believe that this is the timing that the classic process can take. In terms of the profile, I would like to have somebody that is complementary to me, that gives me a solid knowledge of accounting, controllership, and keeps the finance ship very tight. Also, somebody with a good reputation with the markets. I believe I have built a decent reputation with the market, and somebody that supports me on that is very important. A good communicator to the market, somebody that is keen on doing that. And somebody that also has a real focus on performance management. Hein and I worked very well on that. The performance management intensity in the company has changed a lot. You can ask any person in the company. And that's very different today. I want to ensure that only goes higher. So that's the kind of profile we are looking for. Ideally, PLC or US experience would be welcome. It's fundamental that these three or four features are important. We are very happy in the meantime with Srini. He's a great talent. We partner very well. I'm sure that he will do a brilliant job.

Warren Ackerman

Fernando, I could talk to you for hours, but unfortunately, our time is up. Before I let you go, I want to ask two non-Unilever questions, just to get to understand a bit more about you. First of all, favourite sports team and secondly, I'd love to know what your favourite book is.

Fernando Fernandez

Good. Well, my favourite team is called San Lorenzo de Almagro. It’s an Argentinian team, one of the top five, but not one of the top two. We have been in bad shape last year, but this year we are leading the league. So, I'm motivated. I follow them. I have never missed a match in my life practically. I'm a great football fan. Book? Wow, that's a difficult question. I will probably choose one from Mario Vargas Llosa. He is a Peruvian writer. It’s called 'The War at the End of the World.' I like competitive wars and I’m coming from the end of the world. So, it fits well.

Warren Ackerman

Listen, Fernando, thank you again for your time. Good luck on the journey and Buena Suerte.

Fernando Fernandez

Thank you very much. It has been a pleasure and as always, always a pleasure to talk to you. Thank you.