Unilever / Bernstein Strategic Decisions Conference

London, 1000h BST / 0500h EST, Wednesday 25 September 2024

Speakers:

Fernando Fernandez	Chief Financial Officer, Unilever
Bruno Monteyne	EU Food & HPC (Outgoing), Bernstein SC Group
Callum Elliott	EU Food & HPC (Incoming), Bernstein SC Group

Bruno Monteyne, Bernstein

Good morning, everybody. Thank you for joining Fernando Fernandez with us from Unilever today. Fernando, thank you very much for joining us.

Before we go into the fireside chat, I also want to explain you why I need some backup and I'm not here alone, Fernando, I'm handing over to Callum Elliott, who currently covers the U.S. staples. He'll be taking over for me, as I'm leaving Bernstein at the end of this week to start a new life on the private equity side.

Fernando, thank you very much for being here with us. And actually, I wouldn't just say welcome, but also congratulations. I think if I sort of sense investor sentiment, there's clearly a very big change versus a few years ago. A lot has changed. Margins have started to recover. We've had volume and pricing growth. And you know I was often quite a critic or a cynic on whether this was going to happen. So, well done. Congratulations.

Now, thinking about what you said and Hein has said at previous sessions as kind of a change, the biggest thing I sort of keep hearing is this focus on holistic product superiority. But product superiority isn't new. Alan Jope was already talking a lot about that. Hein has sort of added the word "holistic" product superiority to it. So, clearly, it implies it's a broader measure than what you did before. Can you explain how it's different, what's different, and how sort of do those changes reflect Hein's way of thinking about the Unilever business, going forward?

Fernando Fernandez, Unilever

Thank you for having us today, and congratulations to you on the move also and to Callum for joining us in this sector, European consumer goods

It's true our numbers have been better in the last few quarters, but we know this is a marathon. It's not a sprint. We will not be carried away by two or three good quarters. We know the credibility of the company as a high-performer compounder will be delivered if we sustain this performance in the long run. So, that's where Hein, myself, and the whole leadership team of Unilever is focused now.

I remember vividly when Hein came into the role and we were visiting one of our labs in Port Sunlight in the north of England. Our scientists were showing functional superiority in close to 70% of our products versus key competitors. And the question, why is this not translating into share gains or superior volume performance? We have been delivering volume for around 1%, 1.2% in the last 10 years. The answer was obvious. Our marketing has been under par, our execution has been under par.

At the time, our Home Care division was working in a new methodology of really understanding what holistic product superiority means. We have had a lot of metrics for many, many years, but we have not used that systematically in the company.

So, we decided to put together a kind of group of people to work on that. And with some kind of top-notch statisticians and econometric experts, we came with a proprietary methodology that basically is looking at 21 demand drivers, wrapped around the classic Six Ps: proposition, product, packaging, promotion, price, and place. And we have basically developed a model that allows us to really measure what is the contribution of the different 21 demand drivers to our performance and to the competitors' performance in different category geographical cells in the world.

So, we have put this methodology in place. Around 60% of our turnover is now covered by July. We plan to get to around 70% by the end of the year. We have seen a coefficient of determination of around 90%. So, it's a very high explanation of what drives share, and it's helping us to really touch surgically what are the things that we need to correct in every single category geographical cell when it comes to improve our competitiveness.

We are starting to see the results of that. Our shares are improving versus what we used to have one year ago, but there is a lot of work to be done on there. But overall, it is just looking at our propositions in a much more holistic way, not only from a functional perspective.

I was running Beauty before. I introduced in the company the concept of desirability. That was something that it was not really a word we used a lot. And I feel many aspects like that has been introduced in the company recently.

So, we are confident with this methodology that we have put in place. It's very actionable. It's a continuous metric that we are looking at. But the important thing is what you do with that, taking actions and really correcting any potential competitive disadvantage that we have.

We believe that we are making progress on that. It's absolutely embedded in the company and in the way we are working. Hein and I monitor that every single month with all our business groups. I believe it's behind some of the improvements that we have seen in performance here.

Bruno Monteyne, Bernstein
On that last bit, on the improvements, any specific evidence, examples before/after showing how this new approach works and why?

Fernando Fernandez, Unilever
I think probably – and it has been, it has gone a bit unnoticed, but many people talk about our margin improvement and our volume performance in the first half of the year. But probably the most, for us, what really make us happier was the improved performance in Europe. Europe has been a real diluter for Unilever for many, many years. We were not able to really compete in the premium segment. That is really the only profit pool that you have in Europe, given the size of private label in the market.

And if you look at our volume growth in Europe in the second quarter – in the first quarter, it has been remarkable. And it's all linked with an innovation program that has been looking at this kind of methodology, using that as a basis for our innovation plan. And I would say that our innovation plan in Europe probably is the best in a decade, the execution that we are doing.

And one example is our Wonder Wash liquid in laundry, just making big inroads in France, U.K., now being launched in Italy. That was a market in which we were not present. That shows the confidence we have in this kind of initiatives. And I feel this is just an example, but you can translate that into our deodorant business or into our Hair Care business or Vaseline, in which the actions that we are taking are really delivering significant growth.

Bruno Monteyne, Bernstein
I want to get on a bit about the sort of Unilever culture that's behind it. I mean, people have some of those questions, the culture in the past. I mean, you've made some statements about this. And clearly, sort of bringing in Hein as an outsider probably plays into this. Could you describe kind of the culture change? Because you've been there for longer. And what are the

kind of issues that you wanted to deal with? Where are you going to? And what is the goal of Hein in this as an outsider in helping making that shift?

Fernando Fernandez, Unilever
First of all, Unilever is a special multinational. So, we basically went all over the world in the 1920s. We don't have a center of command so clear like some of our competitors have in the U.S. or in France, et cetera, et cetera. So, basically, when you talk about culture in Unilever, there are many different cultures.

So, the culture I grew up in Latin America is very different to the one I found in the corporate center. Very different. I will not highlight what is better, but it's very different.

I feel historically we have had pockets of excellence when it comes to culture. Because if you go to Argentina, to Brazil, to Turkey, to Vietnam, Philippines, India and you talk to people there and say, "Your performance culture is broken," people just look at you and say, "What are you talking about?"

But it's very clear that we have lost our way in some of the key developed market geographies and in our corporate center.

So, I believe that in every single failure a company like ours has, there is a significant component of denial. You take one route, you believe you are right, and there is evidence that things are not working, but you persist in that route. And that happens. And I feel Hein brought a very clear external perspective, fact-based discussions in the table, intolerance with mediocrity, intolerance with denial, and I believe this has been very refreshing in the company.

I grew up with something like that. So, our chemistry works very well in that aspect. And I believe we have taken decisions that Unilever has not taken decisions for decades. We have never separated 13% of the revenue of the company. We are taking now 17% of our white-collar workforce. This has never happened in Unilever before. Of course, there is tension. Of course, there is anxiety. But we are prepared to take this kind of radical decisions to really make a significant step-change in our performance. And I believe this is a reflection there is a cultural change in Unilever. Is everybody happy with that? Definitely not. But we are absolutely convinced of doing what is hard and right for the long term, and not what is easy and wrong.

So, I believe that this is starting to be felt in the organization in every single corner of the company. But it's tough. It's not easy. Sometimes it looks like an everyday fight with the windmills, but we believe that we are making significant progress. It's just we are absolutely committed and – we are convinced about what we are doing, and we are absolutely committed to complete the work that we have started.

Callum Elliott, Bernstein
Changing that sort of cultural denial, as you put it, I mean, it has to start at the top of the business, obviously, but it can take a long time to flow through a business the size of Unilever. Where do you think we are in that process of flowing from you and Hein at the top through the organization?

Fernando Fernandez, Unilever
The decision has been very radical. When you take decisions like that, the impact in the organization is felt in a relatively short period of time. And when you are reducing your workforce in 17%, the average quality of your workforce can improve dramatically and the average cultural fit should improve dramatically, because we will not let go the ones that are fundamentally drivers of this cultural change.

So, hey, we are in early stages, but I believe the performance management intensity in the company today is very different to the one we used to have. The quality of the discussions in the company. The one source of truth in the company. The intolerance with long narratives of why things are not working is very low. We are trying to be the example from the top. And again, this is not something that is new for some parts of Unilever; it's new for some other parts of Unilever.

So, I think we are in an early stage, but we are happy with the process that we are doing. Are we in a steady state? The answer is not. So, I would not say that the company is in a steady state. And there will be bumps in the road because it's a very profound change for a company that has an element of complexity that other companies don't have. So, for us, to get 85% of the revenue, we have to go to 24 geographies. Some of our competitors make 85% of their revenue in five, six geographies. So, it's very different.

So, we need to reach every single corner of the organization, and I feel that's a significant challenge. But hey, as I mentioned before, we are really committed, we are really convinced of what we are doing. And we are starting to see green shoots, and I believe the quality of the discussion in the company has improved and the performance management intensity change is really felt.

Bruno Monteyne, Bernstein
Now, I was surprised – well, not surprised – I noticed how the good culture companies were all in emerging market countries. Now, does that link back to the ease at which you hire talent? I mean, I presume in Brazil, Mexico you're an employer of choice, the smartest people want to work for you. Do you see a link between that and it's just harder to get the same caliber and motivated people in London than it is...?

Fernando Fernandez, Unilever
Of course, just our position in some of our emerging markets is so strong that we are like the likes of Google or we continue being very fancy places to work in Brazil or in India or whatever because our – I grew up in Argentina, and really it was one of the top three companies to work there. So, I feel the attraction of talent in this kind of market for us is a bit easier. In places like London, you compete with investment banking, you compete with consulting. The market is a bit tougher to attract the type of talent we want.

But hey, we have excellent people everywhere in the company. And I feel culture – I always say that culture is defined by the worst behavior you accept. And I feel some behaviors were accepted that they should not have been accepted. And I feel now we are very clear about what are the red lines that we will put in the business in terms of how we will approach performance in the company. And everybody is noticing that. We see significant progress even in markets in which we have not been performing in the last decade or so.

So, yes, there is some advantage in emerging markets, but I will not put that as an excuse in the other places.

Callum Elliott, Bernstein
You spoke about the complexity of the organization. And I guess my question is, how do you, how do Hein get the confidence that the culture really is shifting? And for the investors in the room and the investment community that have much less visibility than you and Hein do, how can we get the confidence that it's really shifting?

Fernando Fernandez, Unilever
I feel the first point is just Unilever has had the problem of consistency: consistency of delivery and consistency of key metrics that the company were searching. If you listen to Hein and myself, we will talk about three things: we will talk about volume growth; we will talk about consistent positive mix; and we will talk about consistent gross margin expansion. And we talk the same to you, to any investor, and to any person in the company now.

And I feel that is starting to permeate the whole organization. And if you want to judge us, you should judge us on that kind of metrics. I didn't look at 2014-2023, but when I get into the role, I looked at 2013-2022. We made in that period 1.2% volume growth. Best company in the sector made 2.6%. Global real GDP was 2.5%. Despite our superior geographical exposure, we were underdelivering volume. And that's something now that everyone in the company knows.

And we are investing in line with an ambition of 2-plus percent volume growth. Because if you deliver 80% of the global real GDP growth, you surely are top sales when it comes to volume delivery.

Best company in the sector delivered 3.8% pricing. Global CPI, it was 3.5%. Unilever delivered 3%. So, we need to deliver 80% of global real GDP at least, 80% of global CPI at least. This is very clear in the company now.

We have a negative currency effect that is a bit superior to some of our competitors. So, in the last 10 years we delivered 1.2% volume, and the 4% price only translates into 1% turnover growth in hard currency. So, we know we have a negative currency effect that we have to compensate for.

Our profit growth between 2017 and 2024 was negligible. We were between €9.5 billion and €9.9 billion in profit there. We are very clear that we need to move that number.

So, there are five metrics – volume growth, positive mix, consistent gross margin expansion, turnover growth in hard currency, profit growth in hard currency – that we are hammering the company with. And we want to make progress in every single one of them.

And if we start to deliver that consistently, I believe you will start to trust us. We know there is a gap in trust between Unilever and the market. We are starting to close it. But as I mentioned before, it's a marathon, it's not a sprint. We are not carried away by two or three quarters of good performance. And we're really committed to move these kind of five key metrics in the company consistently over time, as the great companies in the sector do.

So, if you ask me today, "Fernando, where are you in terms of the quality of execution or how do you score?" in a 1 to 10 scale, I would probably say "6." My mom used to say that "10" doesn't exist. So, we need to get into the 8, 9 in consistent execution our marketing innovation, our marketing quality, our proposition sharpness, our execution of pricing, our execution of distribution. And we know we are not there yet.

So, I feel it's very, very clear that we know what needs to be done. We are very clear about the metrics that we will push for. And we will try to be absolutely consistent. I will not change the fact that we will look for 2-plus percent volume growth because there is an economic crisis or because there is a new COVID or because there is whatever.

So, great companies deliver in line with that. We have very clear proxies of what is good performance in the market, and we will really stay tuned with that.

Callum Elliott, Bernstein
Let's shift gears a little bit. In the U.S., I obviously have a lot of history of talking about Nelson Peltz and his involvement with P&G, and a lot has been made of Peltz joining the Unilever board. I guess my question is, how does he interact with the business at Unilever today? And what difference does it make to having someone like that on the board?

Fernando Fernandez, Unilever
First of all, I feel the changes in the board of Unilever has been significant. In the last year, 5 out of 12 non-executive directors have left the board. So, it's a very significant change.

We have a new chairman, Ian Meakins, some of you know. He is intense. He is intense. And really, he keeps the management in our toes, and we really appreciate the kind of performance management intensity he brings into the business and the kind of strategic clarity he brings into the business.

We have new people coming. The responsible of Walmart International business, until very recently, Judith McKenna is part of our board. And Nelson came in February '22, and I have to say it has been a very constructive relationship with him. He has a huge amount of experience in the consumer sector. I have to say that 95%, 99%, 97% of the time, he's right. We have some discussions, and that's normal, but we really appreciate the kind of support that he's given us in key decisions, like the separation of ice cream. He was huge support for us in really taking that decision, and we really appreciate the kind of contribution he's making to the business.

This being said, I believe the progress that we are seeing in Unilever also there are some elements that I feel we have to attribute to our predecessors also, and I believe that they changed from a geographically led organization into a category-led organization that Alan put in place, with a lot of personal risk and very limited personal benefit. It has been very significant. It has resulted in a much more coherent category strategy, a better portfolio of innovation, a much cleaner and less complex portfolio of brands. And I believe that we, both Hein and myself, are really benefiting for some of the changes that were put in place in 2022.

That, by the way, Nelson has been a great supporter also because he really believes in category focus, and now we are going even deeper on that. We are completely regionalizing our salesforce. I feel the progress is very significant, and Nelson has been a great support in the direction.

Bruno Monteyne, Bernstein

When you were talking about the five key measures, the one that I didn't hear was market share gains. And it obviously reminds me of the debates about competitiveness that you had for a while became very important, came into the incentive scheme, for a lot of investors not liking it in the incentive scheme and you're removing it. But so, just coming back to two parts of the competitiveness of market share gaining, how come it's not one of the top five? And then, second of all, the shift you're making from competitiveness – I think it's sales-weighted market share change – what kind of dynamics does it capture better versus worse while making this change?

Fernando Fernandez, Unilever

Market share gains is a fundamental enabler of a 2-plus percent volume growth company. You cannot get that just by natural market growth. So, I feel that's an important point. I feel in January I communicated that to the market.

We were basically measuring competitiveness with a percentage of turnover winning metric. I believe it's a metric that puts the wrong incentives in place in the company, because people are tempted to get a marginal increase in share that doesn't change your competitive position in the long run in multitude of categories. So, it doesn't provide you focus. It doesn't provide – if you succeed, it doesn't provide you focus. And it doesn't improve your structural competitive better positions in significant parts of the business. You say one basis point of share doesn't have economic value, really. But we were measuring that way. The market didn't like it. I personally hate it. And we took the decision very quickly of changing it.

We moved into turnover-weighted share because we believe that it's the best way of showing true competitiveness. And what we said is that we were losing market share when it comes to turnover-weighted share and that the loss of share that we were having was basically making us leaving the table around 1.5% of underlying sales growth. So, our share loss was equivalent to a 1.5% of underlying sales growth.

I was clear also that we only measure competitiveness in two-thirds of the business. One-third of the business, we don't measure. We measure, but the reality is that there are not reliable audits to make that information public. But we don't measure shares or we don't communicate shares in prestige beauty, in health and well-being, and in food service. All these business has been growing 1.5x to 2x our average sales growth. And in all these business, we have been really – and you can see it in the market of our competition – we have been absolutely market-beating performance for a long period of time.

But now the methodology change is behind us. We are communicating information about shares twice a year. We are making progress. We look at shares on an MAT basis, 12 months on 12 months. And thus, it takes some time to change, but we are seeing improvement. And when we look at our latest 12 weeks versus the previous, the same period last year, we see even further improvement.

So, the actions we are taking in terms of improving our brand superiority scores is starting to reflect in our shares; and particularly, in some geographies like Europe. I want to remind you that Europe in the last five years has been responsible for 61% of the share loss of Unilever globally; 61% in Europe, 29% in Indonesia. So, if you fix Europe, you fix one of the big issues we have.

So, I feel good progress, but more to do, and we are not comfortable yet. So, there is more that has to be done there.

Bruno Monteyne, Bernstein
So, continuing on that topic, because competitiveness is in both ways, the old and the new way. You're not yet where you want to be. I think it's still below 50% in the old way. You're still having average market share losses in your new measure. It's been a discussion point, not just for you and I, but for Alan before. It's been going for two – it's remarkably long coming out. What's explaining the time? What do you need to fix?

Fernando Fernandez, Unilever
As I mentioned before, there was – I'm very clear about this – I believe our marketing was subpar, our execution was subpar. And when you have issues like that, you don't sort it out in one day, particularly in a company like Unilever that has such a geographical diversity.

But I believe the progress is clear. It will take a bit more time. We were very clear in January this year that we were not expecting significant progress in the H1, but that we were expecting to deliver progress in the second half of the year. It's true. We are delivering in line with what we said. But more has to come, and we will not be happy until the day that we have most of our business in green.

And this is a metric we look every single month. And every single leader in Unilever knows that a significant part of their remuneration is linked to this also. So, there is an important incentive to make it happen.

Callum Elliott, Bernstein
So, you said your marketing wasn't up to par, but we have seen A&P levels start to increase. And you made it clear that there's a priority to reinvest for growth. We also, however, see A&P increasing materially across a lot of your competitive companies as well; P&G, up nearly 400 basis points in the first half, for example. Does it sort of dilute the impact of increased A&P spending when everybody's increasing the spending at the same time? And is it just an increased cost of doing business now?

Fernando Fernandez, Unilever
Not everybody is increasing in the same magnitude. I feel we – you mentioned P&G. I feel P&G and Unilever probably have been the ones that have been showing more remarkable increases. In our case, we were investing 13% of our revenue in 2022. We went to 14.3% in 2023, 15.1% in first half this year. There is an implicit recognition that our level of investment was not in line with our ambition of volume growth. And I feel that's something that probably after 2017 – and you know what happened in 2017 with Unilever – there was a reduction in level of investment that it was not sustainable in the long run.

So, we are much more comfortable now with the kind of level of investment that we are putting. But we don't put the stuff behind crappy things. So, we are ensuring that the increasing amount of investment is aligned with increase in the quality behind what we are investing. And today, I'm much more concerned about the quality of the stuff that we put in the market than the amount that we will put. We will see more increases or less increases. I will not guide in BMI investment. The only thing I will tell you, we will invest in line with the 2-plus percent volume growth ambition. I have been very clear since January this year about it, and we will invest in line with that ambition.

So, we don't see increases in every single company. Local players are not showing such a level of increase. Some of the international players, you mentioned one, it has been remarkable in the first half this year. We have not seen that in every one. We see other people putting much more focus on pricing now, promotional pricing. But we like to invest in brand equity-building initiatives. So, between promotional expenditure and media expenditure, et cetera, we always will prefer to really invest in long-term equity-building activities.

Bruno Monteyne, Bernstein
If I look at the first two quarters, you have pricing growth, you have volume growth, about in line with actually the medium targets you're giving. On top of that, your competitiveness is not where you want, but you're clearly quite confident it's getting better. You could almost argue, as you get the improvements, you'll soon be well ahead of those medium-term guidance now. At the same time, you're not increasing it, you're not saying "mission accomplished." So, is there an element of market growth which is somewhere stronger than you? Is there a certain kind of normalization you're expecting? So, as competitiveness boosts you, some headwinds we should be expecting in geographies?

Fernando Fernandez, Unilever
As I mentioned before, if I look at the 10-year period, the best company in the sector, 2.5% volume growth; best company in the sector, 3.8% pricing. So, you make the math of what is good performance.

So, I feel we are in a moment of subdued pricing. That is very clear after a very strong commodity inflation period, before the commodity inflation period. I believe in the long run economies usually normalize to the kind of 2% to 2.5% percent GDP growth and 3% inflation. It will take, I believe, two to four quarters now to see more pricing in the market. Pricing is very subdued, particularly in the food side of the industry. HPC is a bit better. And we will remain competitive, and we will do what is necessary to remain competitive.

We always said that we were not going to see negative pricing in our whole group level. We saw negative pricing in some geographies and in some countries that are more commodity-linked. Classic places are laundry or soap bars in places like India or Brazil, where we put a lot of pricing up in the last few years. But at the group level, we continue positive pricing, but it's subdued pricing versus what is a normal pricing.

So, if you ask me today what is my main concern, it is how to go back to a level of 2% to 3% pricing in the long run. I believe it will happen. Because wage inflation, even if we have seen some reduction in the short term, wage inflation has been very, very sticky.

And remember, a company like Unilever, if I simplify, we are a €60 billion company. We made €10 billion profit. So, we have €50 billion of cost: €27 billion in material, €23 billion in not-material. The €23 billion not-material is fundamentally labor cost-related. And part of the €27 billion, probably you can say 20%, 30% of the €27 billion in material is also labor-related.

So, if you have in the long run wage inflation of 3% in €30 billion, you have to price for that. And this is an issue for Unilever, and it's an issue for everyone in the industry. And nobody commits suicide in the long run.

So, I feel the pricing will come back into the market, but probably it will take two to four quarters for the consumer staples sector to really see pricing more in line with what I believe is a more normal pricing level in the long run.

Bruno Monteyne, Bernstein
And for the investors, as you're starting to build up your own questions, please scan the QR code, and then it will come through on the iPad for us. Because at the end, we'll be doing Q&A based on your questions as well.

Now, coming on to India – one of your sort of crown jewels – a few years ago when people started talking about ecommerce penetrating India, there was like a concern it would potentially harm your competitive advantage because you have way better access to the Kirana stores and people would be able to bypass this. I haven't heard too much about that fear anymore. Can you explain what's happening there and whether that threat is real or not?

Fernando Fernandez, Unilever
Ecommerce continues to grow in India at around 3x the kind of growth you see in the modern trade brick-and-mortar channel. So, the growth of ecommerce is significant, from a very small base.

We have an incredible business in India. It's €6.5 billion revenue. We grew since COVID until now around 200 basis points of corporate market share in India. We lost a bit during the deflationary period, but we are back now and we are in kind of a stable state when it comes to market share. And we have incredible position. We have 55% in hair care. Every time we grow 7%, we grow the size of our main European competitor in hair care in India, and we are growing 11%. So, basically, I'm putting 1.5x the size of one of our major competitors in India in one year.

We have close to 50% in laundry. Every time people move from hand wash to a washing machine use, they increase 3x their spending on the laundry category. Thirty percent penetration of washing machines in India.

So, when we look at the potential, at the combined potential of market growth due to habit change, due to penetration increases, due to up-trading and the kind of competitive positions we have in India, we believe that India for Unilever in the last 10 years will be what China has been for some of our competitors in the last 15. Of course, there will be premiumization. Of course, everybody has discovered India, particularly in the context of a soft China. But we have discovered India many years ago. We have established positions that we believe are very, very strong, and we have an unblinking commitment to defend India, whatever it takes. So, I will not blink to put hundreds of million to defend a position in India if it has to be defended. And we know that investors would reward us because we defend the positions whatever it takes.

And we will invest in acquisitions if necessary to complete what is already a very comprehensive and a very powerful position. But if non-organic initiatives are necessary in India, we will do it in order to ensure that we cope with the potential premiumization of categories and the potential premiumization and diversification of channels.

So, we continue seeing India as a jewel of the crown, and we are absolutely committed to defend that position in the long run. And the business is doing well. We are delivering what we said we were delivering in the commodity deflation period. We said that we were going to put the focus in increasing our volume growth. We were at 1%. We moved to 2% in the second half of last year – in the first quarter this year. We moved to 4% in the Quarter 2 this year. And our intention in an economy that will grow around 5%, 6% global real GDP, we need to get into a 4%, 5% consistently when it comes to volume growth.

So, we are really absolutely focused on that. The performance is improving. We are happy with the work that our team is doing there. Some of our brands are booming. But at the same time, we need to continue modernizing our portfolio in India in a significant way.

In ecommerce, we are growing share. And I feel an important point about our Indian business is our share is very strong in every channel, but our share in modern trade is higher than our share in traditional trade. So, when people is moving from a mom-and-pop store into a big supermarket in India, our probability of capturing that consumer is even higher.

So, we are very confident all the prospects of our business in India. It's super important for us, of course.

Callum Elliott, Bernstein
It's a good segue.

Fernando Fernandez, Unilever
Just let me give you one number. I went to run the Philippines in 2008. So, March 2008, it was a €450 million business. Now it's €1.3 billion. So, we added €8 per capita in 15 years to our business in Philippines. If we add €8 – the GDP per capita purchasing power parity in Philippines in 2008 is exactly the one of India today. Imagine the impact of adding €8 per capita in India. You know the population of India. So, make your math. Imagine the impact of adding €5 per capita in India. It's €6 billion, its doubling our business there.

So, we are very, very confident about the potential for business there. Just the market is in a very early stage of development, and our competitive position is amazing. I believe we have 95% of our business in leading positions there. And we have a very, very comprehensive portfolio. So, touching every single price point, touching every single channel.

Our digitization of the operation in India is just massive. We reach on a digital way 1.3 million stores in India. So, we are increasing through digitization the frequency of visits. And when you increase frequency into traditional trade, you increase sales. Period.

So, I feel that's a significant activity system advantage we have in India.

Callum Elliott, Bernstein
You spoke about the higher market shares in modern trades. One thing that's been a little bit lacking from emerging markets in general and certainly in India has been private label as a pressure. But you talk about the modern trade. You do now have these sort of larger retailers that certainly have the scale and know-how to develop a solid private label offering. So, have you seen any change in the threat from private label in India and the dynamics there?

Fernando Fernandez, Unilever
No. Remember, private level global share is 9%; private level share in Europe is 23%. So, you basically can make the math. So, close to half of the market in private label globally is in Europe.

I have worked all my life in emerging markets, and I feel the key driver of emerging markets with wealth expansion is premiumization and structural up-trading of consumption. Usually, private label starts to develop when categories get to a level of maturity that is very, very significant and when consumer aspiration for premium brands starts to diminish. That's the reason why private labels are higher in foods or in home care than they are in personal care or beauty.

So, we don't see at this stage private label as a big threat. There are a few cases in emerging markets in which private label has developed. Poland was one case. Colombia recently is one case, in some particular categories. But we don't see private label at this stage developing in India at all. We don't see that as a risk at least for the next five years in a significant way. And again, if it would happen, it would happen in some categories more than in others. Our business in India has a significant bias into HPC, where we are a bit more protected.

Bruno Monteyne, Bernstein
Before we go on to the investor questions, I wanted to finish on sustainability, an area Unilever has always been leading and still is leading. You made some recent changes to the targets. And I think that was partially a reflection that some of the solutions weren't ready yet; for example, in plastic, some of the costs are going up. Now, at the same time,

if I look at European Union legislation, it's getting a bit tougher. I mean, the Due Diligence Directive will have an even broader impact in the deforestation impact. How do you think about the impact on your cost of goods in the next 5, 10 years? Is this an inflation repression? And how would you scale it and size it?

Fernando Fernandez, Unilever
First of all, we are very proud of our journey in sustainability. It's a 15-years journey, and we are leading in many, many aspects of sustainability in the industry.

I feel what we have done with sustainability is exactly what we are doing with any other aspects on the business. If you look at the Growth Action Plan that Hein put in place in October last year, the fundamental concept is a concept of focus for impact. And we are really focusing our sustainability priorities in order to really have a higher impact in a shorter time frame. And I feel that's the essence of what we are doing.

We used to have 35 metrics. Now we have 15 metrics in four very clear priorities: climate, nature, plastics, livelihoods. It's more focused. It has more urgency. Ambitious targets, but realistic targets. We don't want to continue promising long-term improvements. We want to be very clear that we have time-bound targets against we will deliver.

We are increasing our partnerships with NGOs, governments in order to ensure that there is a systemic change.

So, these are the changes that we are introducing in sustainability.

When it comes to the cost of goods, we welcome any initiative that brings a level playing field. In the same way that we like formality of the economy – we want everybody to pay taxes; not everywhere that happens – in the same way, we want a level playing field when it comes to sustainability policy and regulation. We have 97.5% of deforestation-free materials for the materials in which deforestation is relevant, and we have 80% of sustainable sourcing for agricultural crops already. So, we have embedded cost in the system already that some of our competition has not done.

If I come back to India, for example, we are the number one player in skin cleansing there, in soaps. We are the only – we compete fundamentally with local players. We are the only player that is compliant with NDPE in India. So, we see that. We don't regret the decision that we take of put that cost in the system. We believe it's a hygiene factor that we have to have.

And overall, when it comes to cost of goods, what you look always is what is the relative cost and what is the impact in your relative pricing. And we have already put cost in the system that some other people have not costed yet. So, I feel in the long run this is a potential advantage for us in terms of the flows, in terms of the dynamic of our sustainability approach when regulation comes in place.

When you look at potential areas of impact where we see in the future, probably the biggest issue for us is in single-use sachets, single-use plastic sachets. It's a very concentrated issue when it comes to geographies. It's fundamentally India, Vietnam, Philippines, Indonesia, but it's sizable. And the technical solution is not easy. We are working on it, but moving from a kind of multi-layer sachet that is not recyclable because there are clear barriers against humidity and to protect the stability of our products into a mono-material sachet is not easy. We are working. We are investing heavily in R&D. We are investing with partners of the plastic area on that, but it will take some time.

And of course, the impact is not only when it comes to the cost of goods, but it's also the impact in your supply chain. Because not necessarily your machinery works with that kind of material. So, it has an impact in cost of goods, but it can have an impact in CapEx.

But we are decided to really work on that area. Single-use plastic sachet is very important because it's a way of democratizing access to consumers in places where people live in a daily income. We sell in India sachets of one rupee. So, we are talking about $0.02. We sell sachets in Philippines at $0.08, $0.12. If you don't have that kind of offering, consumers don't have access to categories that are very important for personal hygiene or personal nutrition.

But we welcome any government regulation in that space. We will welcome that. We are working with governments and with NGOs and with partners in that area because we believe it's a problem that has to be sorted out, and we are investing very, very heavily. And we are absolutely open to open our technology at the moment of time that this has a significant positive impact in the environment.

Callum Elliott, Bernstein
Okay. I think we should move on to questions from the audience, and I've got four here on the pigeonhole. Please feel free to keep on submitting them.

I think the best place to start is ice cream. "What makes that business undesirable?" is the question from the audience. And maybe I could add, is there any structural reason why Unilever would or wouldn't consider a similar move for the nutrition business?

Fernando Fernandez, Unilever
First of all, the ice cream business is a great business. So, as you know, it has Magnum, it has Cornetto in their portfolio, et cetera, et cetera. So, we have built an incredible, powerful ice cream business.

But it's a business that has always been a very clear outlier in our portfolio, and both Hein and I – and I believe this was agreed with the board – we are absolutely committed to have a coherent portfolio strategy. Ice cream has a different channel profile. It's an out-of-home channel business where you make money. It's an out-of-home channel business. It's a cold chain versus an ambient chain. It has higher capital intensity. It has lower margin structure. It has lower cash conversion. So, basically, we saw always ice cream as a clear outlier in our business.

It's a business also that doesn't get a lot of benefit from our global presence and our presence in rural areas of D&E, because this is a city business. It's not a national business. So, it doesn't have the complementarity with the rest of the portfolio that we like.

And we believe that this business to thrive requires a different ownership structure. We pulled the trigger on that because we believe that it creates shareholder value in the long run to do it. And that's our fundamental driver of action.

When it comes to nutrition, it's a very different situation. I call nutrition, internally, edible personal care. Because when you look at our margin structure, our capital intensity, it's very similar to our personal care business.

Our nutrition business is very special. It's not a nutrition business that you see in some other companies. Two brands make 60% of revenue. Two categories make 70% of revenue. They are in attractive areas of nutrition, with potential market growth that is not the one of beauty, but it's a very solid growth. And it's a very profitable business.

And it provides us very strong critical mass in significant amount of markets where we need that critical mass in our leverage, to leverage us with retailers. So, if I look at Mexico, for example, our nutrition business is fundamental for our Mexican company. And I can give you 15 or 20 examples of that.

So, we are very happy with the nutrition business that we have. It's an integral part of our strategy, going forward. So, no more big moves in our side at this stage.

Callum Elliott, Bernstein
Maybe we've got time for one last question, and I'm going to choose one on Indonesia. So, you mentioned Europe and Indonesia as being the two sort of big problem markets from a market share perspective, driving the vast majority of your market share loss. And you touched on how Europe is improving. The question is, how is Indonesia looking at the moment? And is there a plan in place to drive an improvement there?

Fernando Fernandez, Unilever
Indonesia is looking horrible, and it will look horrible for four, six months. I was there two weeks ago. We have many issues in Indonesia. First of all, what happened in Indonesia is a complete outlier. It didn't happen in any other emerging market under very similar economic channels, category development circumstances. It didn't happen in Philippines, it didn't happen in Vietnam, it didn't happen in Argentina, it didn't happen in Turkey, it didn't happen in South Africa at the point of time.

But it's a combination of probably, as I mentioned before, denial of the situation, it's a combination of not putting the right leadership in place, and it's a combination probably of not clear intervention from the centers at the right point of time.

In the short term, and probably since Quarter 4 last year, there has been an additional issue that is linked to the geopolitical situation in Middle East. There were some consumer boycotts to multinational companies. And for us, this has had a significant impact in Indonesia.

In the short term, also, in response to that, there was promotional activities, et cetera, et cetera, that has generated a lot of channel price conflict. And I went there because I have worked on this many, many times and we have seen that many, many times. I spent close to one week in Indonesia, and I'm now managing myself that. That is fundamentally put a stop to the channel price conflict we have, because you cannot run a market in which you combine general trade and modern trade with channel price conflict. So, you basically put your whole distributor system at risk, and that's something that we cannot afford.

But when you sort out that, there is a friction time. There is a period of friction between the changes in your price setup and the margin setup in the value chain, and this will take some time. So, I don't expect Indonesia to get better until Quarter 1 next year. So, it will look bad, but it is what it is.

We are taking the decision for the long term health of the business. Our position in market terms continue being very, very strong. We have great portfolio brands, but there were issues there. We are sorting out the issues, and it will take some time. And we will take decisions that have to be taken.

There is also some channel price conflict in China we are taking care of at this stage. It's not happening only to us. It's happening – when you have this kind of significant change in channel, and particularly where there are channels that are operating high-low, you can have some kind of disturbance in the market. So, we are also taking care of some China issues when it comes to channel price conflict. But when you have a problem, you have to sort it out. And we are absolutely going to sort it out.

Callum Elliott, Bernstein
Fernando, thank you very much for joining us on behalf of Bruno and myself. And thank you, everybody in the room.

Fernando Fernandez, Unilever
Thank you. A pleasure.