Stewart Investors
Sustainable Funds Group

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Opinion piece on Unilever

March 2017

Investors are underestimating Unilever's sustainability success story.

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Since Kraft-Heinz withdrew its offer, analysts have been calling for Unilever to 'accelerate earnings' and become 'more aggressive'. Some are speculating about spin-offs and large acquisitions. Others suggest the company ought to gear up its balance sheet with debt in order to buy back its own shares.

Radical corporate restructuring or a bout of financial engineering might benefit short-term market participants, but we are convinced it will be detrimental to long-term shareholders.

Running any business involves striking a balance between the present and the future. Companies that ramp up profitability for a few years tend to suffer later as a result of that underinvestment.

The management teams of most listed companies struggle with this, and much of the blame should be laid at the door of short-term oriented stock markets and impatient shareholders. Average holding periods are now measured in months, not years, and many investors want immediate results.

The cacophony of voices from 'the market' seeking to pressure Unilever's management into action seems premised on the misplaced notion that the company has been underachieving.

In reality, Unilever has been particularly successful at striking the right balance between present and future needs and ambitions. This has enabled the company to deliver not only for its shareholders but also on its broader social purpose.

Investors in Unilever's London listed shares have been rewarded with a return of just under 13% a year over the past decade, vs. a little over 5% a year in the FTSE100. Sustained for ten years, this has meant a 230% return vs. 66% in the index. This is a company which has delivered handsomely for its shareholders.

Meanwhile, through its Sustainable Living Plan, Unilever is strengthening the agricultural practices of 600 thousand farmers in its supply chains. It has reduced the water intensity of its factories by nearly 40%. It is helping reduce child mortality by educating over 300 million consumers in developing countries to use soap.

No company is perfect. But these are not the achievements of a struggling organisation in need of a radical shake up.

Indeed Unilever's commitment to sustainability seems a particularly popular target for critics keen to point out that the company is failing to allocate resources and time efficiently. This seems to betray a fundamental misunderstanding of the company's history, value system and competitive advantages.

Rather than an optional extra, the Sustainable Living Plan is a central tenet of Unilever's identity, aspirations and long-term strategy.

The crucial point is that rather than a drain on resources or a distraction for management, sustainability leadership has helped to drive superior investment returns over time.

Constructive partnerships with smallholder farmers have helped to make the company's supply chains more efficient and resilient. Environmental efficiency measures have taken cost out of the business and resulted in margins higher than they would otherwise be. Innovative and empowering distribution models have built brand loyalty in emerging markets and positioned the company to grow sales for decades to come in countries like Nigeria, India and Indonesia.

These very real investments in the business involve Unilever making a choice to defer some of today's profits in order to realise greater gains tomorrow. In many cases they may take years – not a few quarters – to bear fruit. And they cannot be captured properly by spreadsheets and financial models. It should come as no surprise, then, that many investors do not see much value in such initiatives.

As a significant shareholder in Unilever on behalf of our clients, Stewart Investors will be encouraging Unilever's allegedly 'chastened' management to resist short-term pressures to take corporate action in the wake of the Kraft-Heinz approach.

Instead we will be supporting them to continue doing what Unilever has been for 130 years: pioneering responsible capitalism and combining sustainability leadership with ample rewards for long-term, patient shareholders.

Jack Nelson
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