THE INVESTOR FORUM

Unilever's long-term focus creates resonating value

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The roles and responsibilities of shareholders is very much the subject of the moment. Against that backdrop, it is interesting to look back to the Berkshire Hathaway Chairman's letter for the year 1979, in which Warren Buffet wrote:

"In large part, companies obtain the shareholder constituency that they seek and deserve. If they focus their thinking and communications on short-term results or short-term stock market consequences they will, in large part, attract shareholders who focus on the same factors".

Nowhere is that powerful observation, made 38 years ago, more relevant today than at Unilever, the subject of an ongoing debate around what kind of businesses we want in society and the roles of shareholders as owners of those businesses.

Unilever has grown its dividend per share at a compound rate of 8pc each year over the past 30 years and delivered a total shareholder return in excess of four times that delivered by the FTSE.

Another way of looking at this: if you had invested £1,000 in 1986 and reinvested all the dividends you received you would have £68,000 today. And your annual dividend last year would have been £1,800. In other words your current annual income would be 1.8 times your initial investment.

Old hands in the investment world talk about "ten-baggers", investments that appreciate to 10 times the initial purchase price. But what gets these investors really excited is when the annual dividend is bigger than the original investment. That is the case with Unilever and it is something worth cherishing.

This long term perspective helps illustrate the value of consistent delivery: value that has enriched the lives of the customers, employees and shareholders of Unilever. Little surprise, then, to see that Unilever has a shareholder register made up of long-term investors attracted to a consistent source of capital growth and income.

Long histories mask periods of varied performance, and Unilever has had its fair share of good and bad experiences. It has no magic formula and for much of the 1990s the company did not articulate a strategy or deliver a consistency of financial return that appealed to investors. The success of the last decade has its roots in the "One Unilever" strategy and the simplification of the corporate structure in 2005, and the Unilever of today is valued amongst the highest of its

peer group of consumer product companies. Perhaps surprising, then, that the company should find itself the subject of an approach from Kraft Heinz in February of this year.

Unilever is a rare asset. It is a national champion, but it is also a global leader. The vision, strategy and record of execution has attracted an enviable list of global investors who have identified a clear strategy and are focused on the compounding capability of the franchise. This is the group's source of unique competitive advantage. It is not a company that needs the protection of a national interest test to be attractive to global investors; rather, its future value is best enhanced by continued focus on the strategic excellence and value creation that its franchise can afford. Investors should recognise that potential and task management accordingly.

The characteristics which Unilever exhibits are increasingly scarce and investors would be well served to focus on the small number of companies that are able to offer such a mix of strategic clarity and financial return. Yes, there is much that can be improved at Unilever, by the existing management team and the talent that the Board can attract, given the company's enviable reputation and opportunities for growth. The alternative, taking a premium in a short term transaction with a heavy reliance on financial engineering, may generate a positive short-term financial outcome but will also deprive them of a valuable commodity.

While there are tough choices for investors to stay focused on the prospects for long-term value creation, there are equally tough challenges for the management of Unilever. The unsolicited approach has doubtless proved the catalyst for review, healthy challenge and a process of self-improvement. It will raise questions over the balance between the long-term focus and shorter-term margins, the portfolio mix and the appropriate levels of gearing. That process should provide the focus which can help Unilever continue its record of consistent compounding. It is to be hoped that any temptation to dispose of good long-term assets to assuage shorter-term pressures can be viewed through a long-term lens.

Unilever has done an excellent job of describing comprehensively how its strategy creates value for a broad set of stakeholders and is firmly anchored in the communities in which it operates. That is simply good business. It resonates with people and it drives loyalty, much more than a numerical target ever can, and the evidence suggests that it produces outstanding long-term financial returns.

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