

Open Analysis:

Nope, Unilever Indonesia Core EPS Might Have (Actually) Down Due to Delayed Cost Recognition, Higher Marginal Costs

9 May 2022



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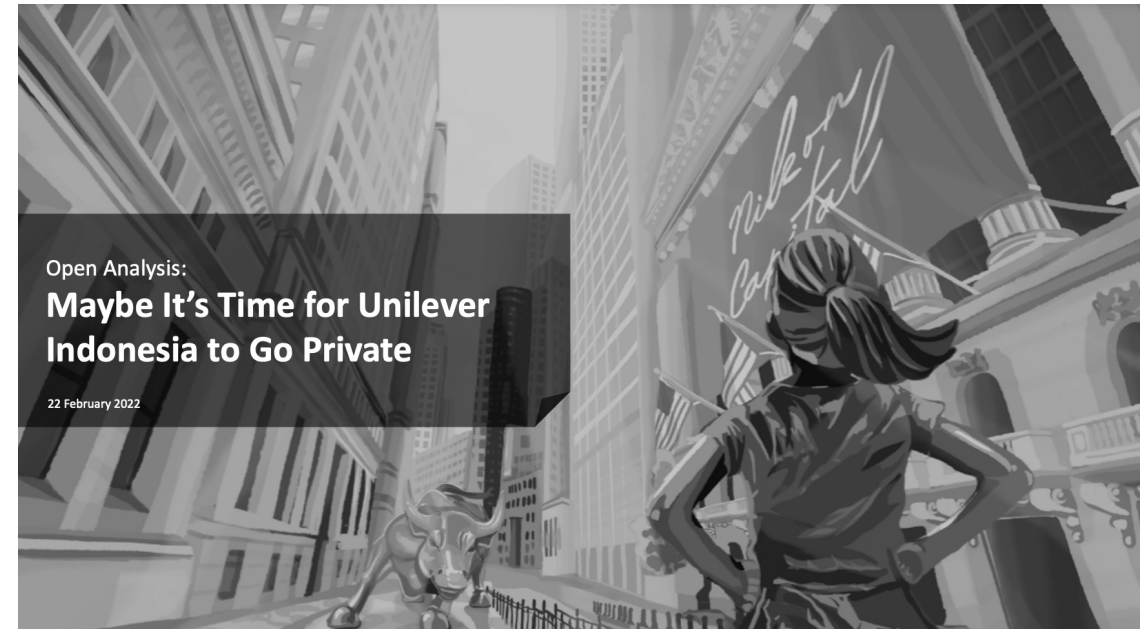
Executive Summary

For Your Information

This article is a sequel of our earlier Open Analysis about Unilever Indonesia issued on 22 February 2022. Reader is advised to read our earlier article for better reading experience.

Please access the following page to download:

<https://nilzoncapital.com/2022/02/22/maybe-its-time-for-unilever-indonesia-to-go-private/>

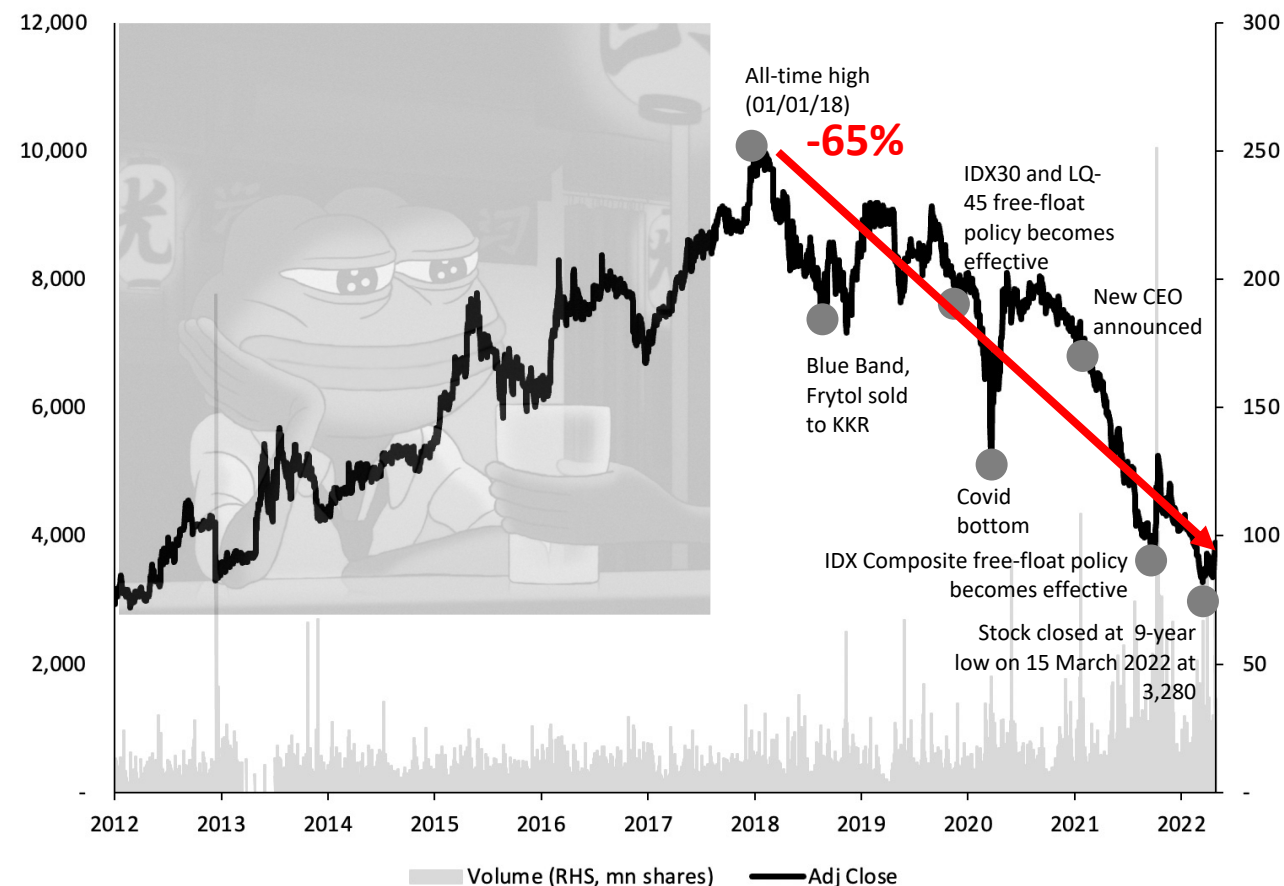


Overview of UNVR

- **PT Unilever Indonesia Tbk.** (IDX: UNVR) is one of the oldest operating company listed in Indonesia Stock Exchange since 1982. Its business primarily focus on Home & Personal Care and Foods & Refreshment.
- UNVR is a part of bigger fast-moving consumer goods (FMCG) company, Unilever PLC, which is listed in the London Stock Exchange (LON:ULVR) and New York Stock Exchange ADR (NYSE:UL).
- UNVR operation in Indonesia primarily sells global brands owned by its parent (sometimes rebranded to blend with local culture) including Pond's, Wall's, Lipton, Axe, Clear, Dove, Lifebuoy, Rexona, SariWangi, Sunlight, and Wipol.
- In this article, UNVR refers to PT Unilever Indonesia Tbk., and Unilever PLC refers to the parent company listed in the London Stock Exchange.
- "Core EPS" in this article refers to the reported EPS adjusted with projected expenditure items discussed later in Chapter 02.

Enterprise Value (EV)	IDR149.13 trn
Market Cap	IDR148.40 trn
TTM Q1 2022 Net Sales	IDR40.10 trn
TTM Q1 2022 EBITDA	IDR9.14 trn
EV/TTM Q1 2022 Net Sales	3.72x
Employees (Q1 2022)	4,949

UNVR Stock Price since 2012, Adjusted with Dividend and Split



Source: Financial Report, Yahoo Finance, IDX Note: TTM is the acronym of trailing-twelve months

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Source: *Twitter*

Retail Investors are Longing to See More Directors to Have Skin in the Game, Stockholding Too Much Too Little

Source: *CNBC Indonesia*



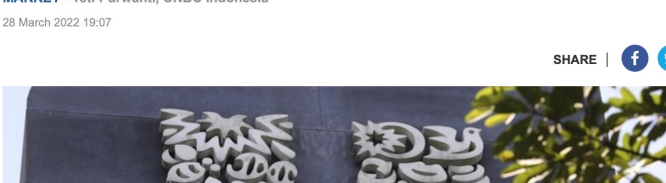
MARKETINVESTMENTNEWSENTREPRENEURSYARIAHTECHLIFESTYLE

Harga Saham Terus Turun, Direktur UNVR Justru Borong Saham

MARKET - Teti Purwanti, CNBC Indonesia

28 March 2022 19:07

SHARE |  



Source: *CNBC Indonesia*

 **Awqi Gilbran**
@Awqi_Gilbran

Replying to @Stockbit

Ya elah, 4M aja dibilang ngeborong buat sekelas UNVR sama direksinya mah apa atuh segitu

Translated from Indonesian by Google

Well, come on, 4M is said to be a wholesaler for the UNVR class and the directors, what's that?

1.36 PM · 31/03/22 · [Twitter for Android](#)

Source: *Twitter*

 **buukan main saham**
@mardi_invest

Nilai pembelianya 1 M. Kalau ada sentimen + yg bakal keluar dalam waktu dekat, harusnya sekelas direktur bisa lebih banyak lagi akumulasinya. Atau sentimennya masih agak lama, jadi tujuan investasinya terlihat natural 🤔 atau bisa jaga emang avg down aja.

Translated from Indonesian by Google

The purchase value is 1 M. If there is a sentiment + that will come out in the near future, the director class should be able to accumulate more. Or the sentiment is still a bit old, so the purpose of the investment looks natural 🤔 or can you just keep avg down.

9.21 PM · 28/03/22 from Percut Sei Tuan, Indonesia · Twitter for iPhone

Source: [Twitter](#)

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Wow!!! UNVR has just posted a "turnaround" revenue and EPS growth in Q1 2022. For real?

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The screenshot shows the Unilever Indonesia website. The header features the Unilever logo and a navigation bar with a search icon and a 'Daftar' button. Below the header, there's a blue banner with the text 'Penjualan Domestik Tumbuh 5,8%, PT Unilever Indonesia, Tbk. Berhasil Membalikkan Kinerja di Kuartal I 2022'. The main headline reads 'Penjualan Domestik Tumbuh 5,8%, PT Unilever Indonesia, Tbk. Berhasil Membalikkan Kinerja di Kuartal I 2022'. Below the headline, it says 'Diterbitkan: 28/4/2022' and 'Waktu rata-rata membaca: 3 menit'. The body text starts with 'Tangerang, 28 April 2022 – PT Unilever Indonesia, Tbk. ("Perseroan") mengumumkan laporan kinerja keuangan untuk kuartal I 2022 (tidak diaudit). Setelah dua tahun menghadapi berbagai tantangan selama pandemi Covid-19, di awal tahun 2022 ini Perseroan berhasil mencetak penjualan bersih sebesar 10,8 triliun, dimana penjualan domestik bertumbuh sebesar 5,8% year on year atau 13,9%'.

Source: Company page, accessed 4 May 2022

<https://www.unilever.co.id/news/press-releases/2022/penjualan-domestik-tumbuh-58-pt-unilever-indonesia-tbk-berhasil-membalikkan-kinerja-di-kuartal-i-2022/>



The screenshot shows a market news article on Bisnis.com. The header has the word 'MARKET' in large blue letters. Below it, there's a navigation bar with links: HOME, BURSA DAN SAHAM, OBLIGASI DAN REKSADANA, EMAS, KURS, KOMODITAS, and REKOR. The main headline reads 'Laba Unilever Indonesia (UNVR) Naik 19 Persen di Kuartal I/2022'. Below the headline, it says 'Laba bersih Unilever naik 19,02 persen YoY menjadi Rp2,02 triliun pada kuartal I/2022 dari Rp1,69 triliun pada periode yang sama di tahun sebelumnya.' The author is 'Iim Fathimah Timorria - Bisnis.com' and the date is '28 April 2022 | 16:35 WIB'.

Source: Bisnis.com, accessed 4 May 2022

<https://www.unilever.co.id/news/press-releases/2022/penjualan-domestik-tumbuh-58-pt-unilever-indonesia-tbk-berhasil-membalikkan-kinerja-di-kuartal-i-2022/>



The screenshot shows a market news article on CNBC Indonesia. The header has the CNBC logo and a navigation bar with links: MARKET, INVESTMENT, NEWS, ENTREPRENEUR, SYARIAH, TECH, and LIFESTYLE. The main headline reads 'Efisiensi Mampu Menyelamatkan Laba Unilever'. Below the headline, it says 'MARKET - CNBC Indonesia, CNBC Indonesia' and the date is '28 April 2022 18:32'.

Source: CNBC Indonesia, accessed 4 May 2022

<https://www.cnbcindonesia.com/market/20220428182951-17-335884/efisiensi-mampu-menyelamatkan-laba-unilever>

UNVR long-term HODLers and bagholders be like

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02

**Unfortunately, Core EPS Might
Have (Actually) Down YoY**

UNVR had a poor core operating result while incremental profit primarily contributed by massive drop in G&A expense, not from a better gross profit

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UNVR Q1 2022 and 2021 Reported P&L

In IDR millions (except per-share data)

	Q1 2022	Q1 2021	Δ	Δ%
Net sales	10,838,042	10,282,521	555,521	5.40%
COGS	(5,565,037)	(4,889,595)	(675,442)	13.81%
Gross profit	5,273,005	5,392,926	(119,921)	-2.22%
Marketing and selling expense	(1,980,122)	(2,171,670)	191,548	-8.82%
General and administration expense	(651,983)	(994,711)	342,728	-34.46%
Other expenses, net	(1,280)	(417)	(863)	206.95%
Operating profit	2,639,620	2,226,128	413,492	18.57%
Finance income	1,204	-	1,204	N/A
Finance costs	(33,021)	(46,263)	13,242	-28.62%
Profit before income tax	2,607,803	2,179,865	427,938	19.63%
Income tax expense	(586,596)	(481,785)	(104,811)	21.75%
Profit	2,021,207	1,698,080	323,127	19.03%
EPS	52.98	44.51	8.47	19.03%

Source: UNVR Q1 2022 Financial Report

- In Q1 2022, UNVR reported a net profit of IDR2,021 billion, up IDR323 billion or 19.03% compared to the same period last year.
- There are two things that caught our attention: (1) **negative gross profit growth despite improving net sales**; and (2) **significant cost cutting in general and administration (G&A) expenses**.
- Here, we can conclude that most of the incremental profit of **IDR323 billion** was coming from significant reduction in G&A expenses (**down IDR343 billion**) rather than improving core operation and cost cutting in marketing & selling expense (the number doesn't add up to the profit).
- Thus, we can focus on exploring what is really happening to the G&A expense rather than other items in the P&L.

Almost all of the decrease in G&A expense were contributed by sudden drop in payment to Unilever PLC affiliates

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UNVR Q1 2022 and 2021 Reported G&A Expense

In IDR millions

	Q1 2022	Q1 2021	Δ	Δ%
Trademark, technology and service fees and enterprise technology solution fees	419,188	740,320	(321,132)	-43.38%
Remuneration and employee benefits	91,507	119,562	(28,055)	-23.46%
Information and telecommunications	42,758	45,314	(2,556)	-5.64%
Consultant fees and other services	28,897	38,283	(9,386)	-24.52%
Depreciation of fixed assets	15,707	16,481	(774)	-4.70%
Long-term employee benefits	11,588	10,928	660	6.04%
Amortisation of intangible assets	11,284	6,206	5,078	81.82%
Education and training	3,212	4,842	(1,630)	-33.66%
Depreciation of right-of-use asset	2,803	3,952	(1,149)	-29.07%
Traveling and representation	5,368	1,131	4,237	374.62%
Rent	836	435	401	92.18%
Others	18,835	7,257	11,578	159.54%
Total	651,983	994,711	(342,728)	-34.46%

Source: UNVR Q1 2022 Financial Report

- A deeper analysis on UNVR Q1 2022 G&A expense shows us that the single-biggest contributing factor of major decline in G&A expense was **trademark, technology and service fees and enterprise technology solution fees (TTS&ETS)**. Its decline of IDR321 billion is in line with the overall decline in G&A expenses of IDR343 billion.
- The cost cutting in remuneration and employee benefits is the second-biggest contributing factor, as the benefits from layoffs among direct and indirect labor starts to bear fruits for the Company. However, this number is still too small and outshined by the TTS&ETS expense in the paragraph above.

Service fees and Enterprise Technology Solution fees suddenly waived (✨ gone ✨) from the quarterly earnings

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UNVR Q1 2022 and 2021 Reported TTS&ETS expenses

In IDR millions

	Q1 2022	Q1 2021	Δ	Δ%
Trademark	253,133	243,351	9,782	4.02%
Technology	172,406	166,323	6,083	3.66%
Service fees and Enterprise Technology Solution fees	Absent???	330,646	(336,997)	-101.92%
Total	419,188	740,320	(321,132)	-43.38%

Source: UNVR Q1 2022 Financial Report

- The data shows us that the Service fees and Enterprise Technology Solution fees (**S&ETS**) is **suddenly absent from UNVR Q1 2022 financial report**.
- Other expenses such as trademark and technology didn't experienced material changes in the same quarter, instead in line with the incremental sales.
- This leaves us with more questions than answers:
 - What is S&ETS fees?
 - What is happening to S&ETS in Q1 2022?
 - **Is it gone for good, or is it going to come back in the next quarter?**
 - **Will the S&ETS fees be accumulated in next quarter or later this year?**
 - Is S&ETS something the management can have full control on?

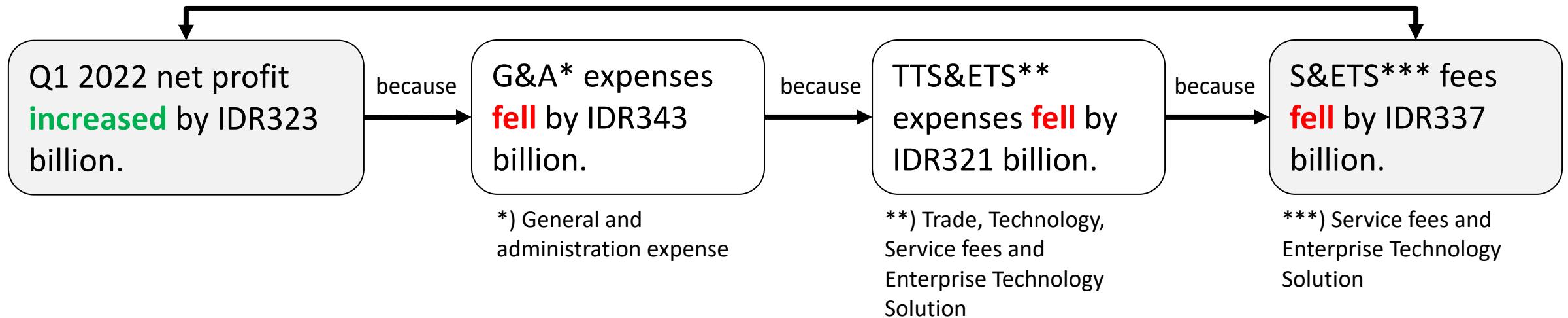


Prime factor of the net profit growth

If our thesis holds, all of the incremental net profit is contributed by sudden waiver in payment to Unilever PLC affiliates and not from the operational success

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The amount of waived S&ETS fees match with the increase in net profit, indicating that all – if not most – of the incremental net profit is contributed by the sudden waiver of S&ETS fees instead of operational success.



Source: UNVR Q1 2022 Financial Report

S&ETS fees is a mandatory payment for Unilever PLC affiliates, where UNVR is obliged to pay up to 3%+1% of its revenue and have been around since at least 1997, so permanent elimination in S&ETS fees are highly unlikely

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Disclosure about "Service fees" paid to Unilever PLC affiliates

- **Central Service Agreement (CSA) with respect to the provision of strategic leadership and its implementation, professional support, and product categorisation strategy by companies under the Unilever group to the Company. The service fee for the CSA is calculated based on the actual cost recovery with a cap of 3.00% of total turnover of the Company per annum to the third parties.**

Source: UNVR Q1 2022 Financial Report

Disclosure about "Enterprise Technology Solution fees" paid to Unilever PLC affiliates

On 26 September 2019, the Company and Unilever Europe Business Center B.V. ("UEBC") executed the **Unilever Enterprise Technology Solution Service Agreement ("ETS Agreement")**, effective from 1 October 2019.

The ETS Agreement is an agreement for the provision of Enterprise Technology Solutions ("ETS") services that are integrated globally provided to the Company which include services related to (1) **Business and finance services**; (2) **Employee/human resources services**; (3) **Workplace/employee workplace services**; (4) **Information and analytics services**; (5) **Information technology (IT) services**; (6) **Supply services**; (7) **Project management services**; (8) **New programmes/innovations services**; (9) **Additional services, which are needed to support, directly or indirectly, the Company's operation process and/or daily business activities.**

The transaction value of the ETS Agreement is determined from the prospective payment made by the Company to UEBC calculated from the actual expenses incurred by UEBC in providing the ETS Services (actual ETS Costs) with an additional 5% mark-up (with the exception of the costs of services purchased from third parties), which will be charged at cost only for each type of ETS service fee. From the effective date of the ETS Agreement until 30 September 2020, the total amount of charges will not exceed 0.5% of the Company's total annual domestic net sales, and thereafter it will not be more than **1% of the Company's total annual domestic net sales.**

Source: UNVR Q1 2022 Financial Report

In fact, UNVR disclosed in 2019 that Unilever Europe Business Centre B.V. (Unilever EBC) as the payee of ETS fees will make and send “invoices” to UNVR every quarter, likely gives full control to Unilever EBC on timing of such expense

- The following paragraph were found in UNVR public disclosure* on affiliated transaction and material transaction regarding ETS fees dated 28 September 2019 (unofficial translation from Bahasa Indonesia):

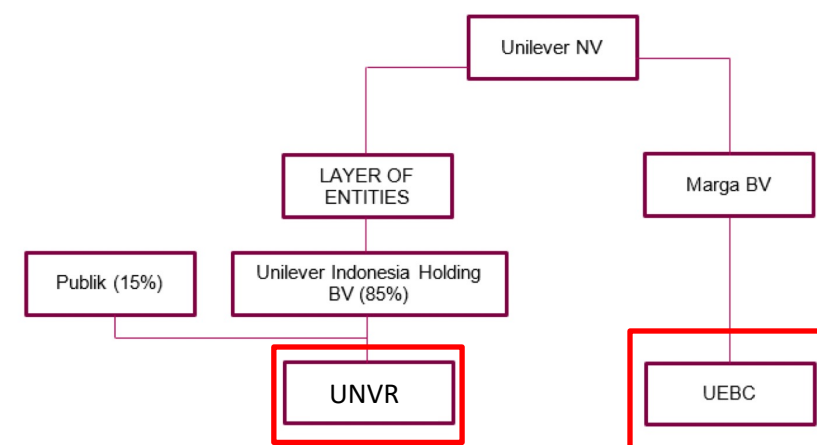
“Invoices will be sent quarterly, and the Company is required to pay the invoice on the 20th day of the first month after the billing month, or within such other period as agreed by both parties.”

- The “...or within such other period as agreed by both parties” might be the reason why such S&ETS fees were waived in Q1 2022 as Unilever EBC was yet to send the “invoices”.
- The disclosure above is for ETS fees only, while we found no detailed disclosure on Service fees so far. But, the terms might be identical since it’s involving identical entities.

*) Public Disclosure accessed from IDX website on 4 May 2022:

https://www.idx.co.id/StaticData/NewsAndAnnouncement/ANNOUNCEMENTSTOCK/From_EREP/201909/e1f56666c9_070193a57d.pdf

Who is Unilever EBC?



Source*

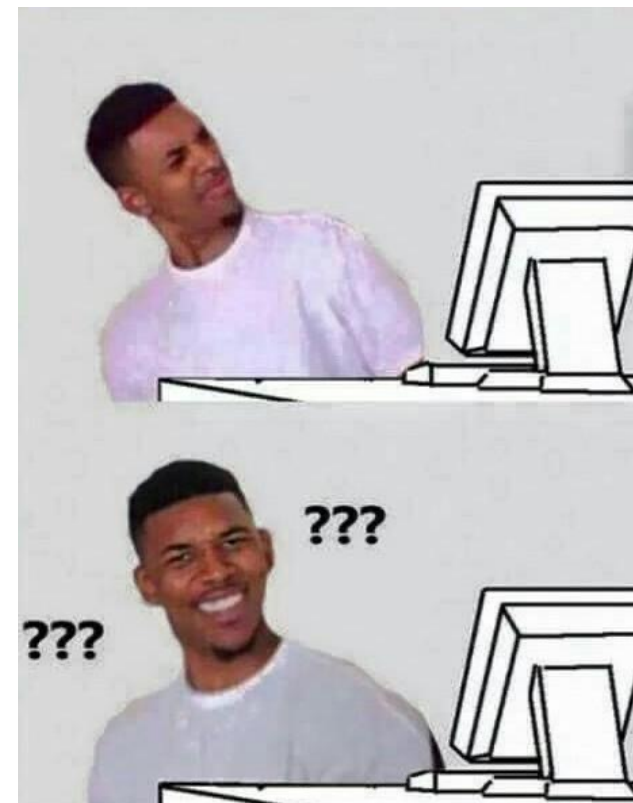
Why UNVR S&ETS fees were negative in Q1 2022? Turns out the deal can work backward, where UNVR can provide ETS services back to Unilever Group through Unilever EBC

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- Aside from delayed claims by Unilever EBC, the negative S&ETS expense might be also because of favorable adjustment by UNVR **or an execution of a backward deal.**
- The following paragraph were found in UNVR public disclosure on affiliated transaction and material transaction regarding ETS fees dated 28 September 2019 (unofficial translation from Bahasa Indonesia):

*“ Based on the ETS Agreement, if required and approved by the Company, **the Company may also provide relevant ETS Services to other Unilever Group companies through UEBC.***

The Company may charge service users who are billed through UEBC for the provision of such ETS Services.”



Who Pays Who?

ETS fees are perpetual and will be renewed every 3 years, while UNVR director recently clarifies that there might be no adjustment on Trademark and Technology fees in the near future and instead “back to agreement”

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- The following paragraph were found in UNVR public disclosure on affiliated transaction and material transaction regarding ETS fees dated 28 September 2019 (unofficial translation from Bahasa Indonesia):

“ *The ETS agreement is effective from October 1, 2019 for up to 5 years.*

The ETS Agreement may be terminated early by either Party with written notification to the other Party at least 3 months before the end of the financial year when the ETS Agreement will be terminated in that financial year.

The ETS Agreement will be automatically extended continuously for a period of 3 years until one of the Parties intends to terminate the ETS Agreement with written notification to the other Party at least 3 months before the end of the financial year when the ETS Agreement will be terminated in that financial year.”

- As far as we concerned, we found no official explanation from the management on why the S&ETS is suddenly missing from the Q1 2022 financial report.
- There’s no clue either on regulatory filings at IDX, financial report, and press release on whether such expense is currently under termination.
- UNVR director Enny Hartati says the following during Q1 2022 earnings press conference as quoted by Bisnis.com:

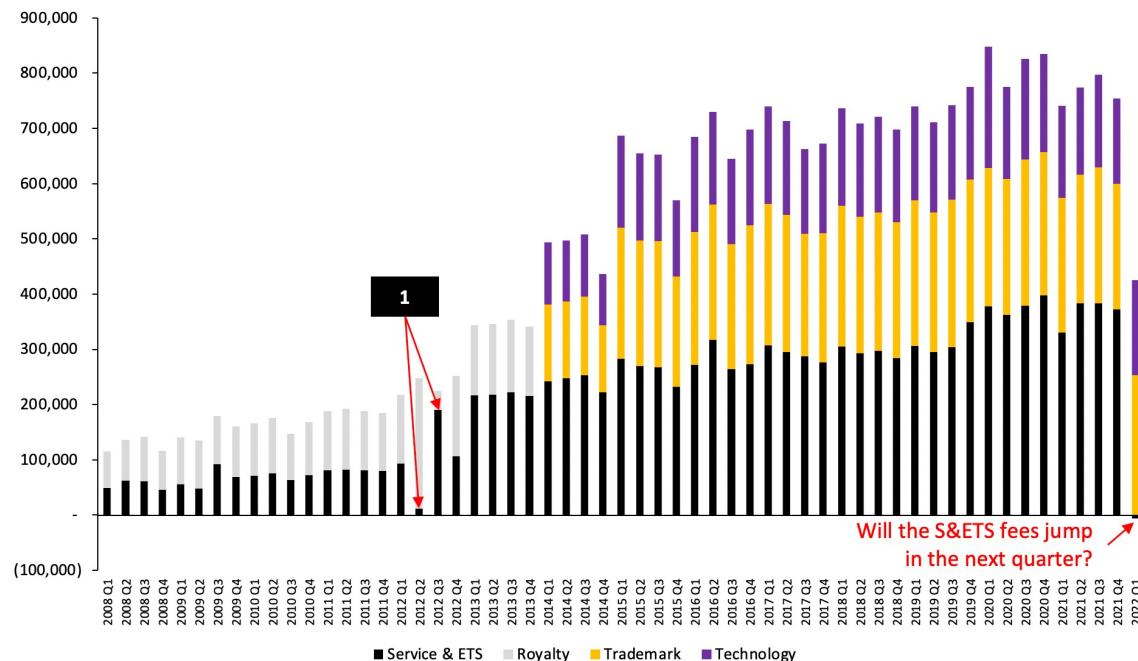
*“It's true that we pay to the parent company, Global Unilever, 3 percent for trademarks and 2 percent for technology. [...] **Would it be a discussion [for review][,] I guess we're back to agreement, still at 5 percent** for total brand and technology licenses. We will also continue to comply with the Financial Services Authority Regulations,” – Bisnis.com [article](#) accessed 7 May 2022*

However, this statement only clarifies Trademark and Technology expense, not the Service fees and Enterprise Technology Solution fees that we are reviewing.

This is not the first time S&ETS fees suddenly missing from the quarterly earnings, and history shows that the S&ETS fees are likely to be delayed to the next quarter, not eliminated

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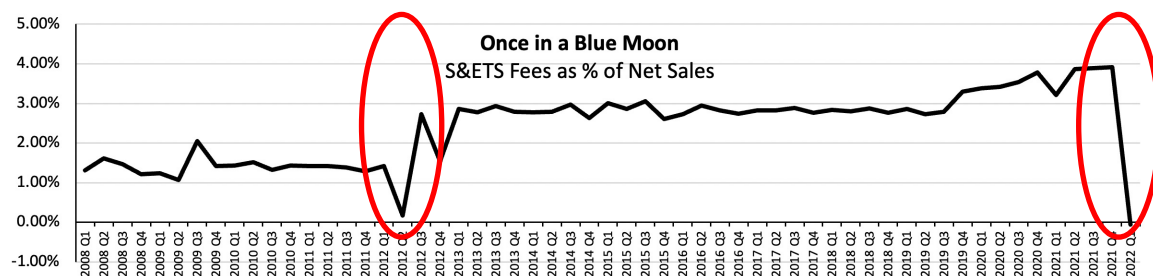
UNVR Quarterly Technology, Trademark, and S&ETS fees 2008-2022 (IDR million)



1

Previously in Q2 2012, UNVR recorded a drastic drop in quarterly S&ETS fees (regarded as “services fees” back then), which was later accumulated and charged back in the next quarter to make up for the absurdly low S&ETS fees in Q2 2012.

For almost 10 years of stable S&ETS fees of 3-4% of net sales, UNVR broke the silence by suddenly record a negative S&ETS fees in Q1 2022, a very rare event that we see happen only once in a blue moon. This makes us wonder whether this is just an accounting feature that allows the management to defer recognition of S&ETS fees to the next quarter, or the management successfully lobbied Unilever PLC to permanently eliminates the S&ETS fees forever?

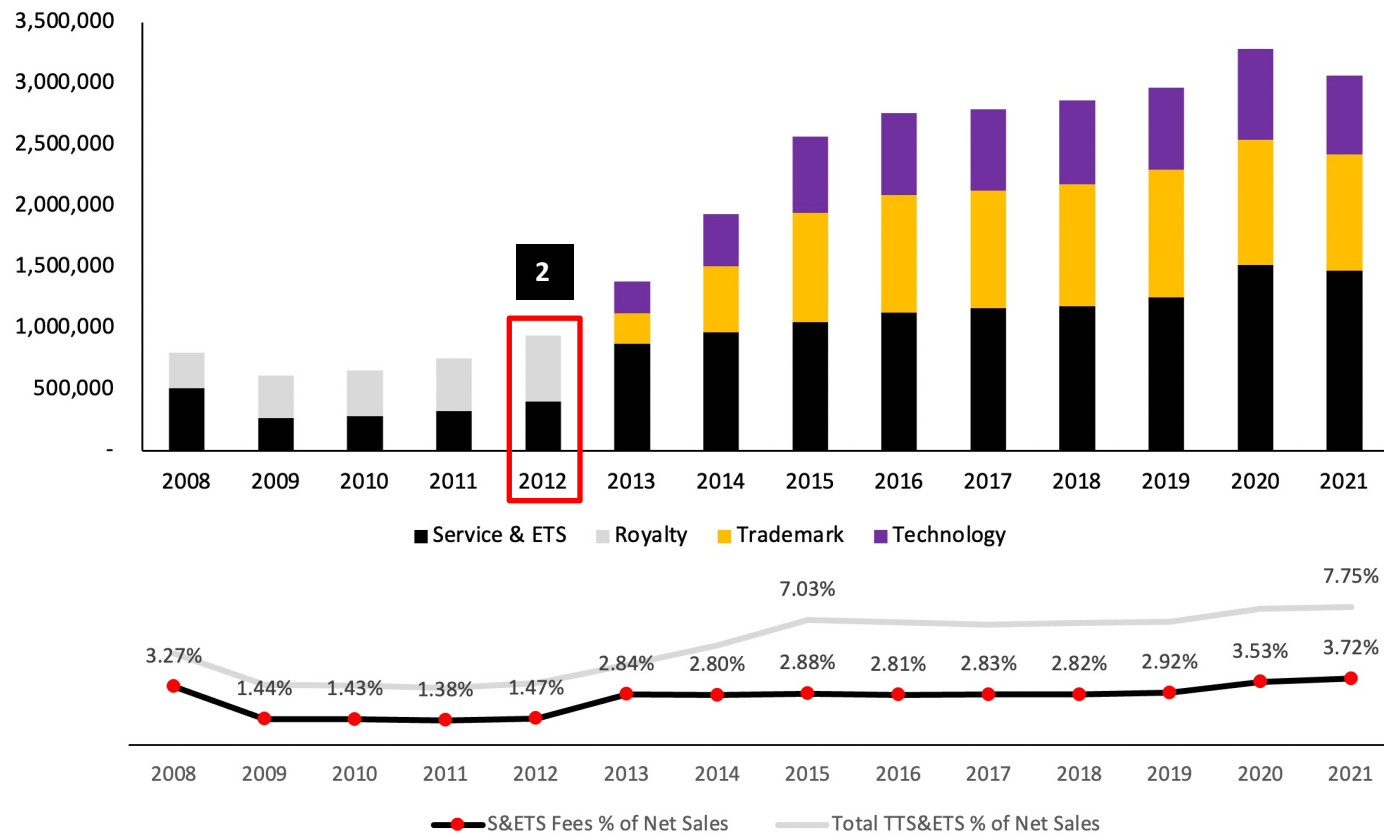


Source: UNVR 2008-2022 Financial Report

In fact, UNVR had recorded consistent payment of S&ETS fees every year-end despite the quarterly hiccups

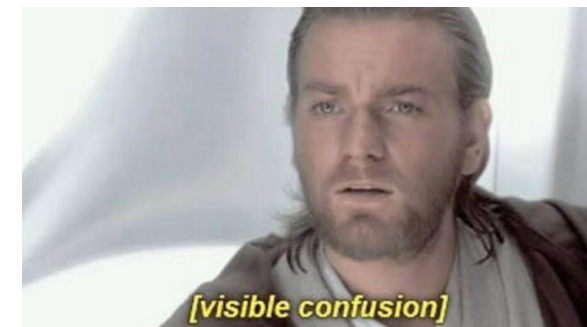
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UNVR Annual Technology, Trademark, and S&ETS fees 2008-2022 (IDR million)



2 In 2012, despite the quarterly volatility on S&ETS fees shown in the previous page, UNVR still managed to record consistent S&ETS fees annually like nothing happen.

If this is the case, investor may be safe to assume that UNVR may likely to record back its accumulated S&ETS fees in Q2 2022 or later, after waiving such expense recognition in Q1 2022.



You, right now

Source: UNVR 2008-2021 Financial Report

If the thesis holds and massive S&ETS fees were to be recognized later, the projected TTS&ETS expense might have doubled from what was reported in Q1 2022

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UNVR Projected TTS&ETS Fees for Q1 2022, Assuming Prorated Expectation on S&ETS Fees (IDR million)

	Projected Q1 2022 with S&ETS	Reported Q1 2022	Q1 2021	Δ	Δ%
Trademark	253,133	253,133	243,351	9,782	4.02%
Technology	172,406	172,406	166,323	6,083	3.66%
Service fees and Enterprise Technology Solution fees	421,800	(6,351)	330,646	91,154	27.57%
Total	847,339	419,188	740,320	107,019	14.46%

Source: UNVR Q1 2022 Financial Report, Nilzon Capital estimates

- Historically, UNVR's actual S&ETS fees as % of net sales were 3.87%, 3.89%, and 3.91% for Q2 2021, Q3 2021, and Q4 2021 respectively, with **average of 3.89%** during these previous 3 quarters (see page 18).
- The average of 3.89% is in line with the capped 4.00% agreed by UNVR and Unilever PLC as disclosed in the latest financial report.**
- With reported net sales of IDR10,838 billion during Q1 2022, we expect the prorated S&ETS fees for Q1 2022 to be IDR421.8 billion (calculated by multiplying 3.89% with the net sales during the quarter), not the negative IDR6.3 billion as previously reported.**
- This makes the projected total TTS&ETS expenses to be IDR847 billion or twice the reported amount.
- The projected Δ% for S&ETS of 27.57% is mostly due to absurdly low S&ETS charge on Q1 2021 (3.22% of net sales, defying long-term trend).

Projected G&A expense might have grown by +8.59% YoY, not -34.46% as reported

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UNVR Projected G&A Expense for Q1 2022, Assuming Prorated Expectation on S&ETS Fees (IDR million)

	Projected Q1 2022 with S&ETS	Reported Q1 2022	Q1 2021	Δ	Δ%
Trademark, technology and service fees and enterprise technology solution fees	847,339	419,188	740,320	107,019	14.46%
Remuneration and employee benefits	91,507	91,507	119,562	(28,055)	-23.46%
Information and telecommunications	42,758	42,758	45,314	(2,556)	-5.64%
Consultant fees and other services	28,897	28,897	38,283	(9,386)	-24.52%
Depreciation of fixed assets	15,707	15,707	16,481	(774)	-4.70%
Long-term employee benefits	11,588	11,588	10,928	660	6.04%
Amortisation of intangible assets	11,284	11,284	6,206	5,078	81.82%
Education and training	3,212	3,212	4,842	(1,630)	-33.66%
Depreciation of right-of-use asset	2,803	2,803	3,952	(1,149)	-29.07%
Traveling and representation	5,368	5,368	1,131	4,237	374.62%
Rent	836	836	435	401	92.18%
Others	18,835	18,835	7,257	11,578	159.54%
Total	1,080,134	651,983	994,711	85,423	8.59%

Source: UNVR Q1 2022 Financial Report, Nilzon Capital estimates

- As the TTS&ETS fees projected to be twice the amount reported, G&A expenses might be actually growing despite the cost cutting effort on remuneration and employee benefits.

The Core EPS might have actually down (not up!)

UNVR Projected P&L for Q1 2022, Assuming Prorated Expectation on S&ETS Fees (IDR million, except EPS)

	Projected Q1 2022 with S&ETS	Reported Q1 2022	Q1 2021	Δ	Δ%
Net sales	10,838,042	10,838,042	10,282,521	555,521	5.40%
COGS	(5,565,037)	(5,565,037)	(4,889,595)	(675,442)	13.81%
Gross profit	5,273,005	5,273,005	5,392,926	(119,921)	-2.22%
Marketing and selling expense	(1,980,122)	(1,980,122)	(2,171,670)	191,548	-8.82%
General and administration expense	(1,080,134)	(651,983)	(994,711)	(85,423)	8.59%
Other expenses, net	(1,280)	(1,280)	(417)	(863)	206.95%
Operating profit	2,211,469	2,639,620	2,226,128	(14,659)	-0.66%
Finance income	1,204	1,204	-	1,204	N/A
Finance costs	(33,021)	(33,021)	(46,263)	13,242	-28.62%
Profit before income tax	2,179,652	2,607,803	2,179,865	(213)	-0.01%
Income tax expense	(490,288)	(586,596)	(481,785)	(8,503)	1.76%
Profit	1,689,364	2,021,207	1,698,080	(8,716)	-0.51%
EPS	44.28	52.98	44.51	(0.23)	-0.51%
YoY Growth	-0.51%	19.03%			

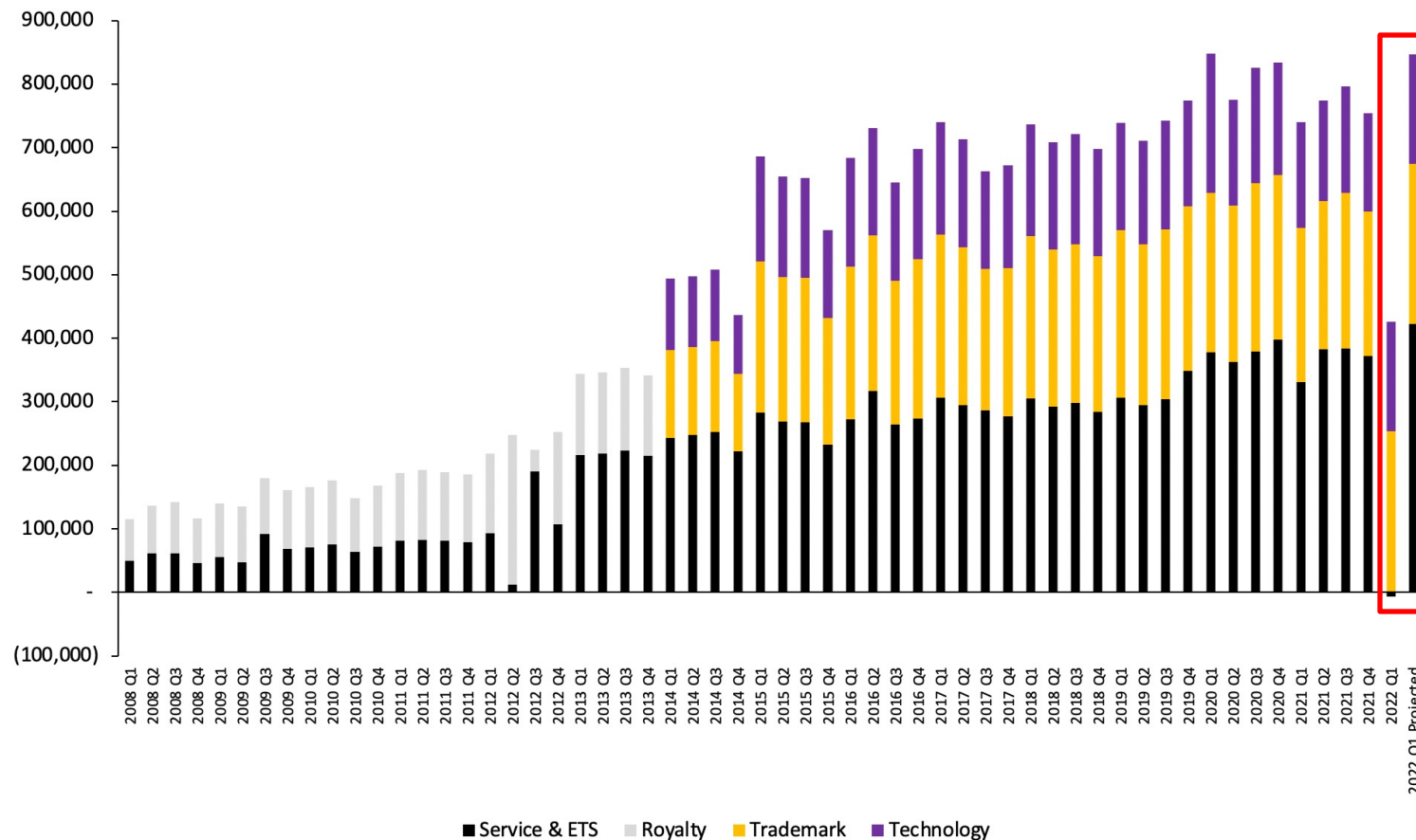
Source: UNVR Q1 2022 Financial Report, Nilzon Capital estimates

- If all thesis hold and S&ETS fees were delayed instead of completely eliminated in Q1 2022, UNVR might have actually reported a negative Core EPS growth of **-0.51%** to IDR44.28/share instead of up by +19.03% as reported. However, actual numbers may vary on different assumptions.
- Our assumption includes tax shield on incremental costs identical to the effective tax rate in Q1 2022.
- **Reader is advised to keep up to date with the management explanation or disclosure following the issuance of this article. Nilzon Capital disclaims any obligation to update, make correction, or provide follow-up on this article, also disclaim any obligation to cover loss in any form that may be arising from the use of information stated in this article.**

Not to mention that in Q1 2022, UNVR might have recorded the highest S&ETS fees ever to Unilever PLC affiliates

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UNVR Quarterly Technology, Trademark, and S&ETS fees 2008-2022, Including Projection (IDR million)



- If projected S&ETS fees of IDR422 billion in Q1 2022 turns out to be accurate, it might be the highest S&ETS fees ever paid by UNVR to Unilever PLC affiliates during its existence.
- The total TTS&ETS expense in Q1 2022 might also be the second-biggest ever after Q1 2020, during of which UNVR book the highest quarterly net sales ever, completely different from what's happening today.

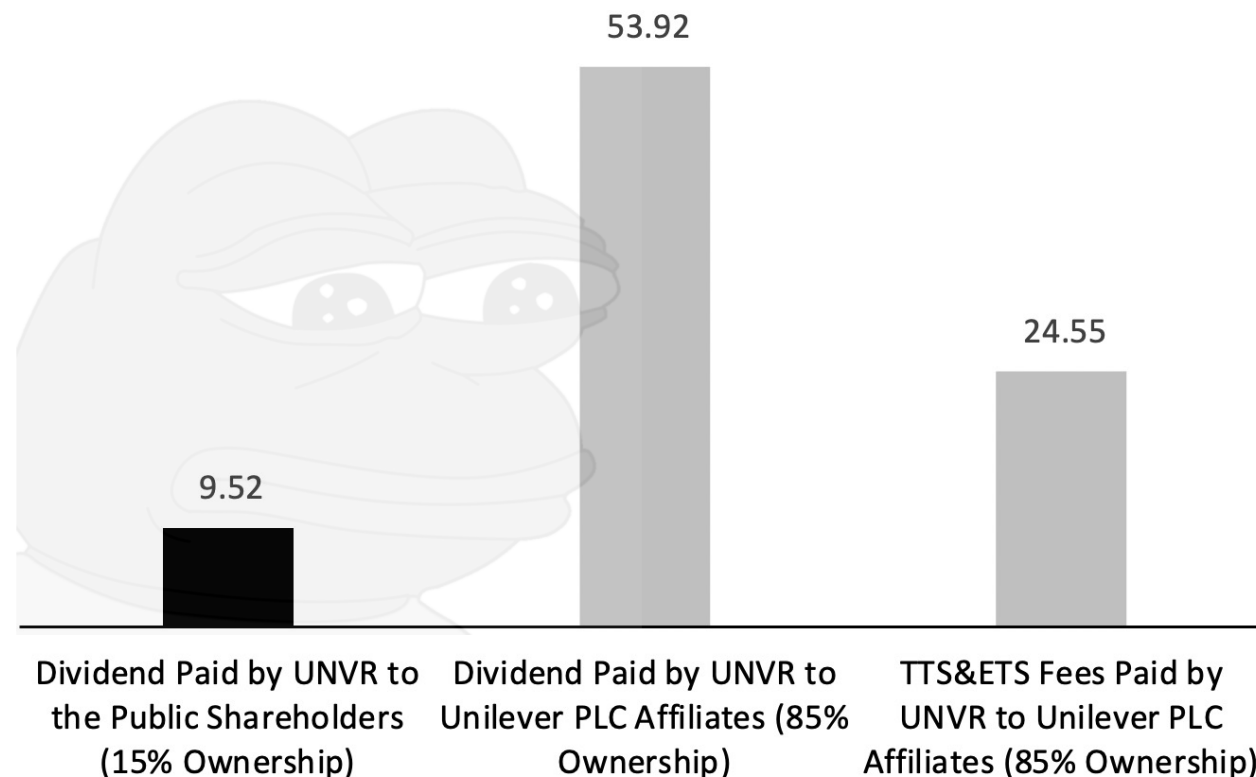
Source: UNVR 2008-2022 Financial Report

If S&ETS fees were indeed completely eliminated/canceled (or adjusted in favor to UNVR) in Q1 2022 and not just temporarily waived, then why now and why not earlier?

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- Just think about it.
- FYI, our data shows UNVR has paid fees to Unilever PLC and affiliates for as much as **IDR24.55 trillion** in TTS&ETS fees from 2012 to 2021 plus **IDR53.92 trillion** in dividend, which is significantly greater than UNVR has ever paid to the public shareholders in dividend for **IDR9.52 trillion**.
- If the TTS&ETS fees from 2012 to 2021 was waived and proportionally allocated as incremental dividend payment, the public investor would have received additional **IDR3.68 trillion in dividend**, a massive addition of 39% to shareholders return.

Payments During 2012-2021 (IDR trillion)



Source: Unilever, Yahoo Finance, market cap as of 30 December 2021

UNVR long-term HODLers and bagholders after this

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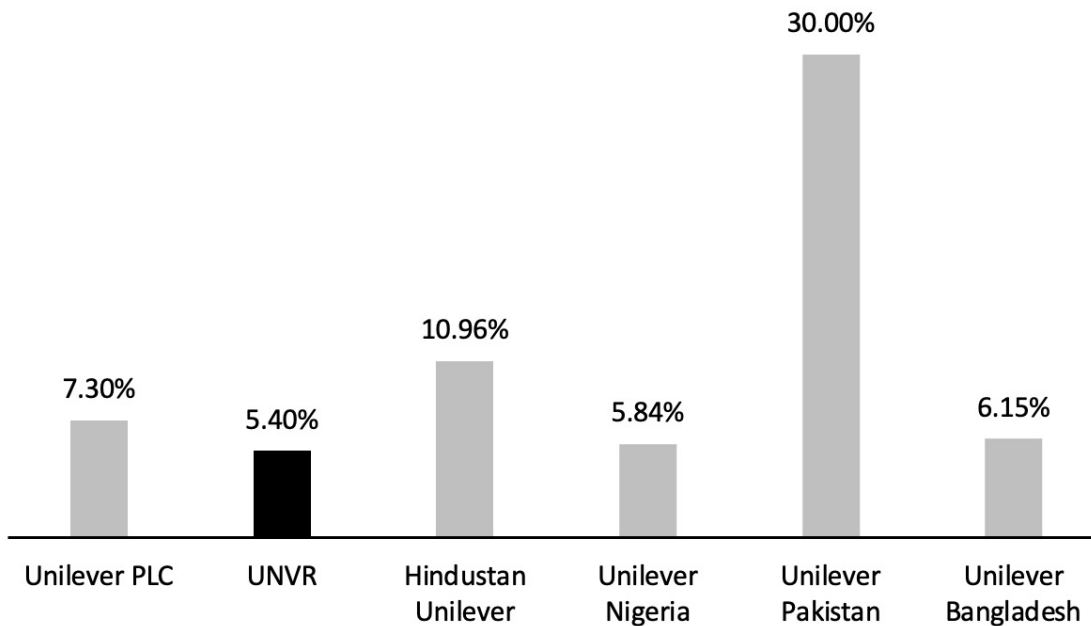


03

**Did Sales Growth and Cost Cutting
were Aggressive Enough?**

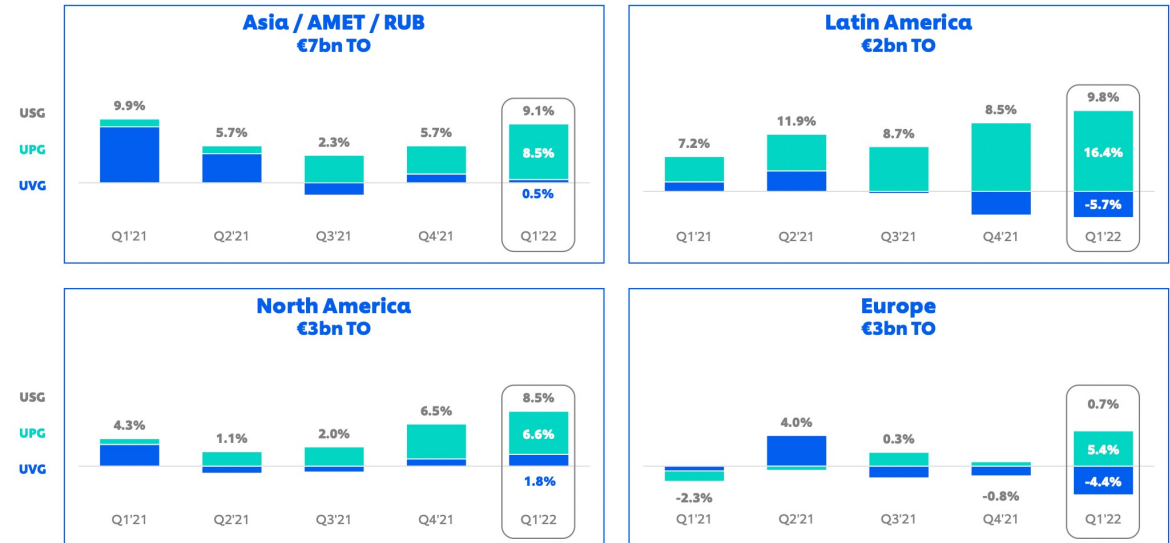
UNVR Q1 2022 “turnaround” is the weakest among its own public-listed sister companies, even lower than parent company Unilever PLC

Q1 2022 YoY Net Sales Growth



Source: Financial Report, Trading Statement

Unilever Group Regional Growth by Quarter

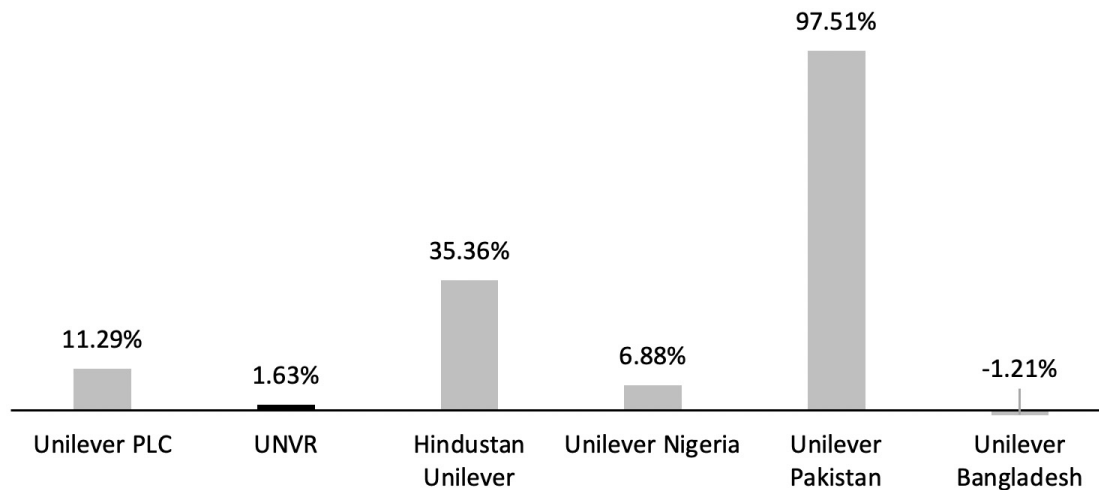


Source: Unilever PLC earnings call presentation

- Despite its success to post a “turnaround” net sales performance, data shows UNVR is still lagged behind its own overseas sister companies.
- UNVR also lagged across all region except Europe and lagged its parent company Unilever PLC.

UNVR is yet to escape pandemic gravity, losing steam to “downtrading”

Q1 2022 vs Q1 2019 Net Sales Growth



Source: Financial Report, Trading Statement

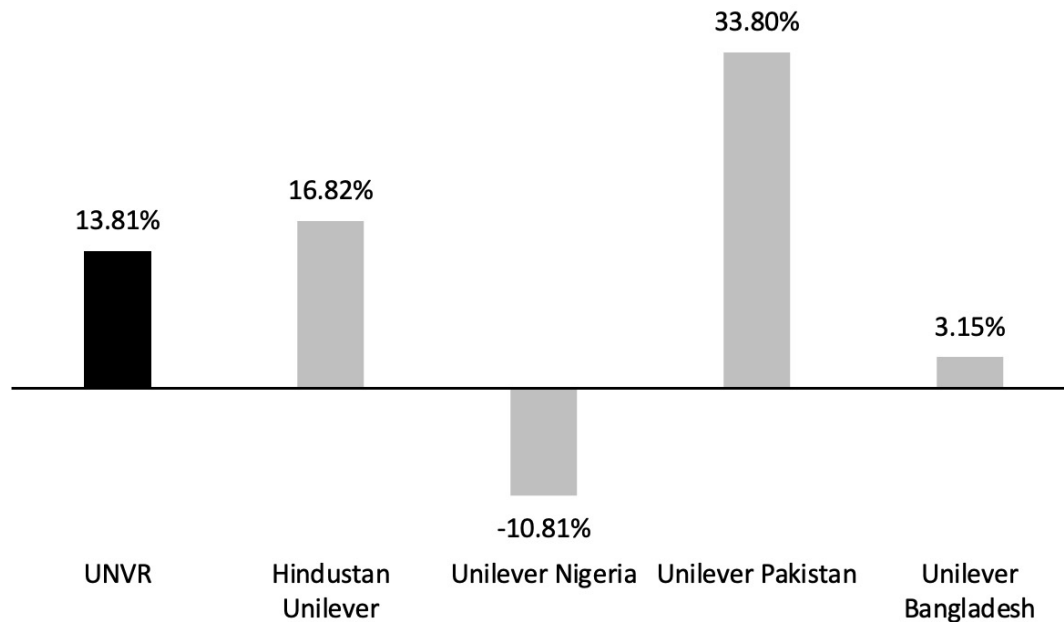
- UNVR Q1 2022 net sales was only growing by +1.63% from its Q1 2019 numbers, indicating that UNVR is yet to escape pandemic gravity and is yet to see the real and more tangible “turnaround” that the investors are looking for.
- Based on observation on selected Unilever Group’s public-listed companies, UNVR “turnaround” is only better than Unilever Bangladesh (Unilever Consumer Care Ltd.) which is currently still fighting to recover net sales after pandemic.
- UNVR is significantly left behind from its parent Unilever PLC, which recorded a wonderful 11.29% sales growth in Q1 2022 vs Q1 2019, indicating that Unilever PLC is relatively far out from the pandemic rout.
- About future expectation of Unilever operation in Indonesia, Unilever PLC CEO Alan Jope says the following during Q1 2022 earnings call:
*“Despite increasing consumer confidence, inflation is impacting the Indonesian consumer and **we are seeing continued downtrading* to lower price packs.**”*

*) Downtrading according to Wiktionary is defined as “The practice of a consumer **switching from expensive brands to cheaper alternatives**”

UNVR COGS growth is in line with its global sister companies, inflation destroys margin

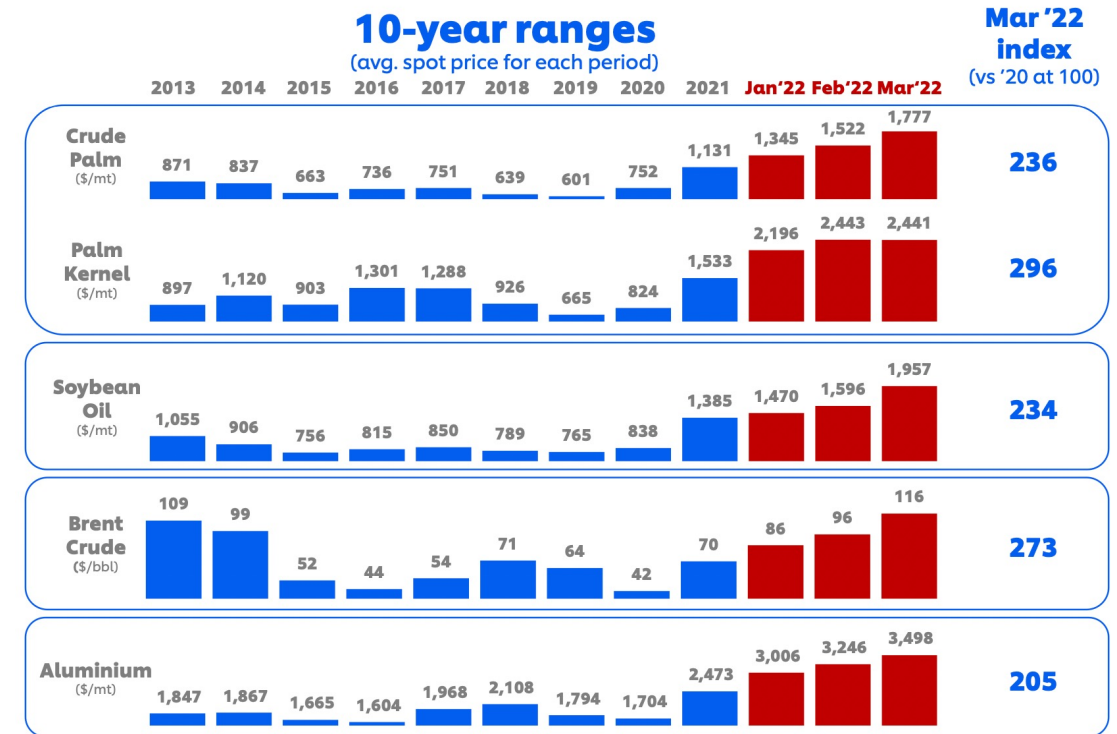
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Q1 2022 YoY COGS Growth



Source: Financial Report, Trading Statement

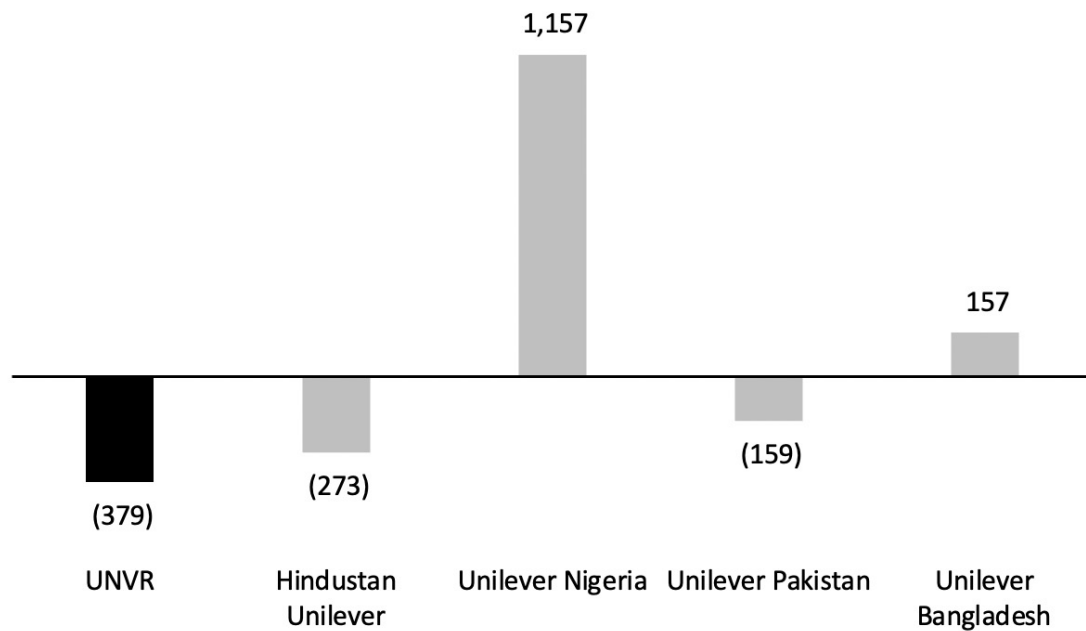
Unilever Group's Observation on Commodity Inflation



Source: Unilever PLC

UNVR experienced the worst drop in gross profit margin vs observed sister companies, putting extreme pressure to the management to be more aggressive in cutting back operational costs to make up for lost profits

Gross Profit Margin Q1 2022 vs Q1 2021 (bps)



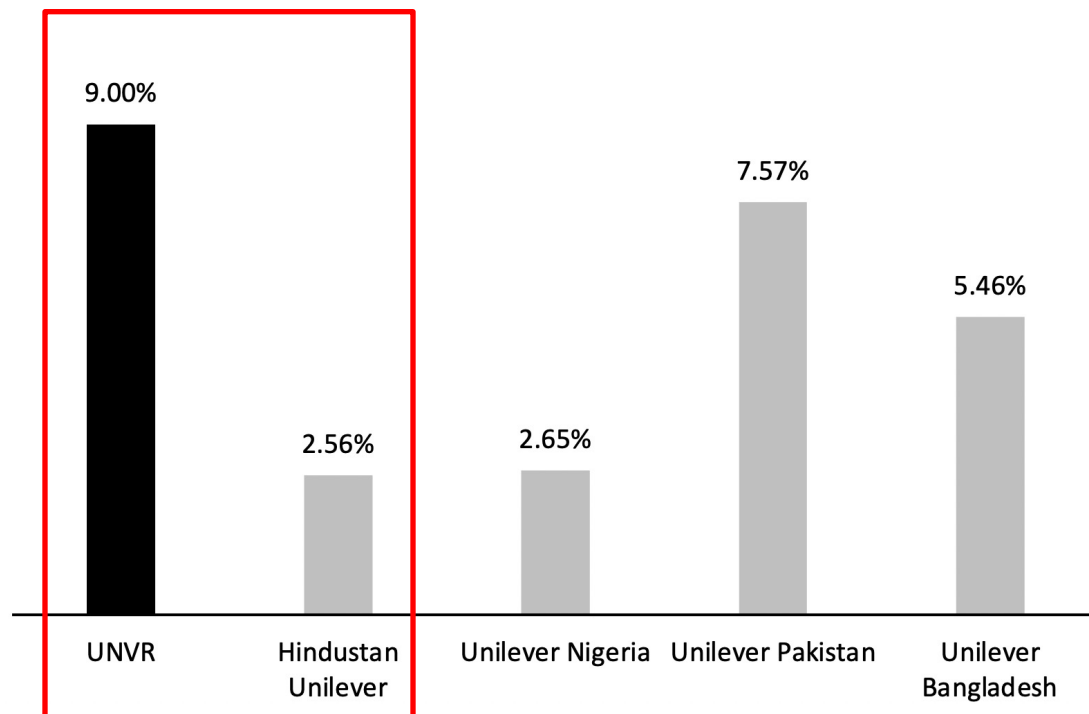
Source: Financial Report, Trading Statement

- Despite its “turnaround” net sales performance, UNVR failed to keep up with the rising raw materials cost, which surged by 12.45% YoY and thus sending gross profit margin lower by 379 bps compared to the same quarter last year.
- UNVR director Enny Hartati says the following during Q1 2022 earnings press conference as quoted by Bisnis.com:
“Obviously there is a price increase, but **we don't pass it on to consumers**” – Bisnis.com [article](#) accessed 5 May 2022.
- UNVR decision to sacrifice margins is likely an indicator of serious threat from competitors.
- While sacrificing margins, UNVR is urgently in need to improve its effort to further cut back operating costs, whether advertising cost, labor cost, or fees paid to its parent Unilever PLC & affiliates.

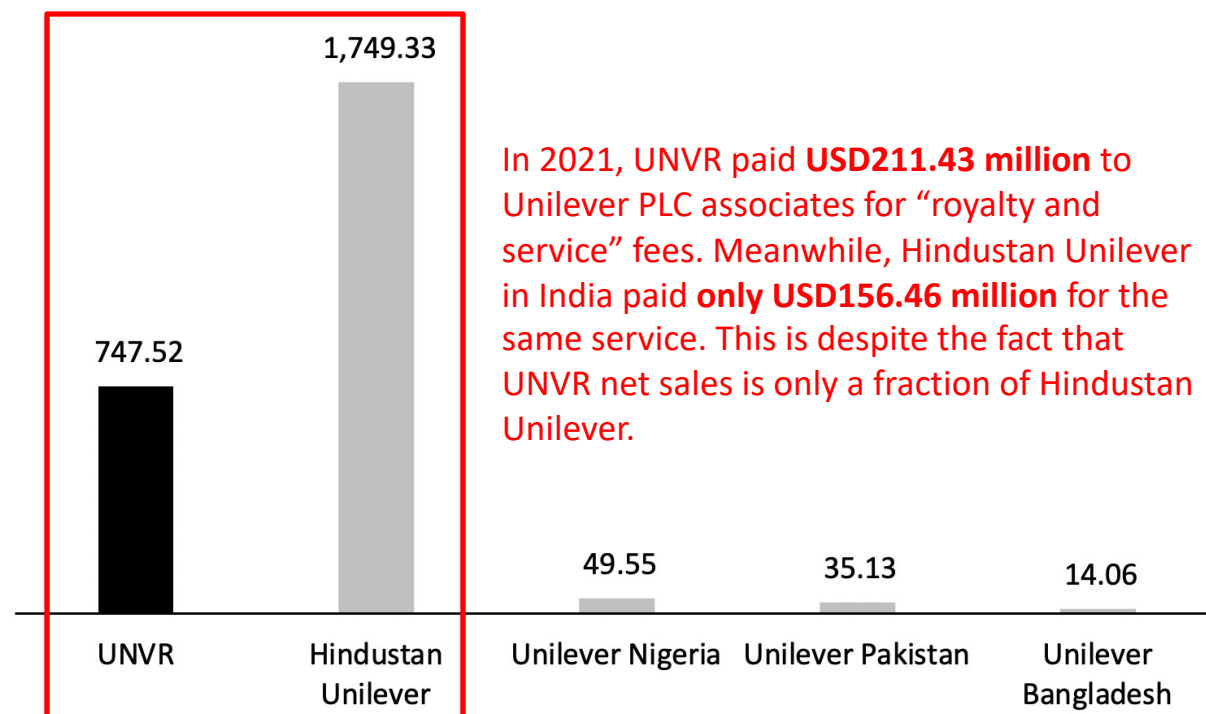
UNVR is likely to pay the most "royalty and service " fees as % of net sales and in nominal USD to Unilever PLC associates relative to its sister companies we observe. In fact, the royalty and service fees % do not correlated with how much any companies are making in net sales

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Royalty and Service Fees of UNVR* and Observed Sister Companies, as % of Net Sales in 2021



Q1 2022 Net Sales (USD million), Showing No Correlation between Royalty and Service Fees % with How Much Each Companies are Making in Net Sales



In 2021, UNVR paid **USD211.43 million** to Unilever PLC associates for "royalty and service" fees. Meanwhile, Hindustan Unilever in India paid **only USD156.46 million** for the same service. This is despite the fact that UNVR net sales is only a fraction of Hindustan Unilever.

Source: Financial Report 2020-2022, Trading Statement, data taken from royalty, trademark, technology, service fees, or other similar affiliated fees that we deem identical to royalty and service fees paid to affiliated parties

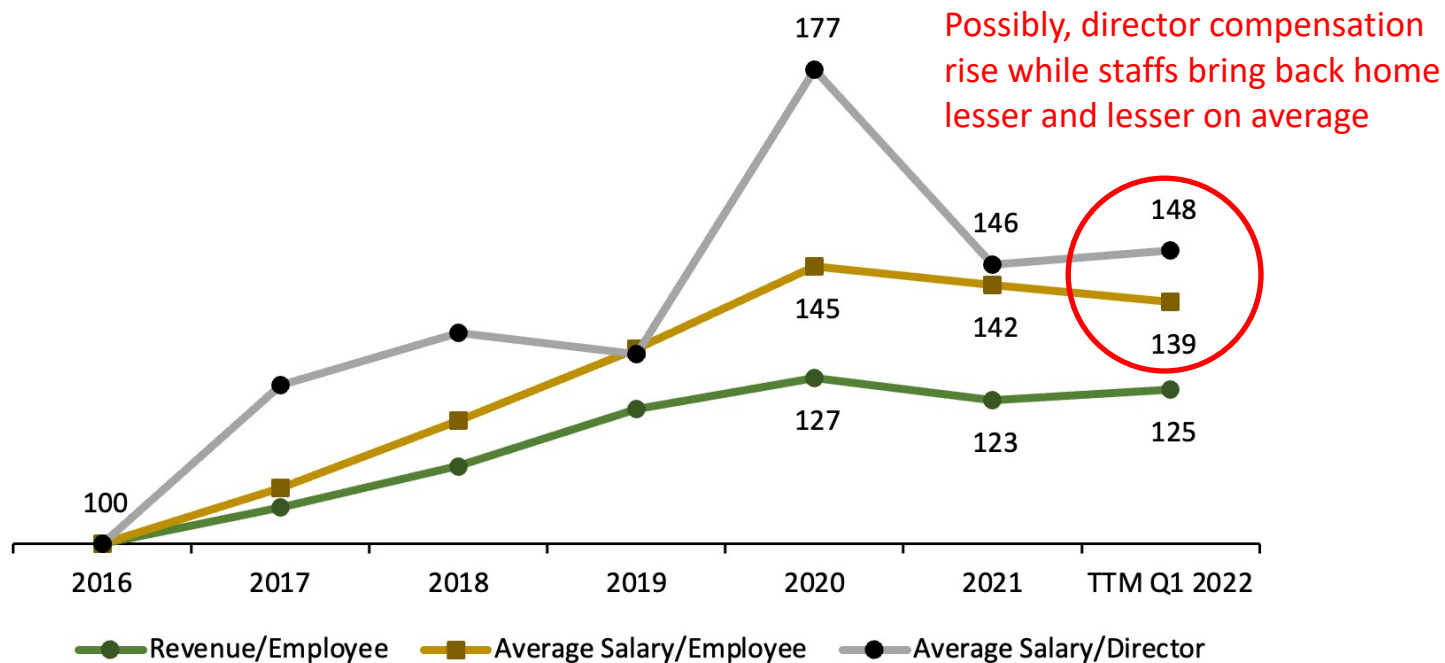
*) Fees paid by UNVR are taken from capped amount stated in the agreements

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UNVR directors cut back average salary per employee, but not theirs

UNVR Personnel Effectiveness, Rebased to 2016 Level



Source: Financial Report

- Directors effort to improve personnel effectiveness starting to bear fruit, but still off its revenue per employee trend by 14 index-points as of TTM Q1 2022.
- While cutting back personnel costs, the directors seem to bring more money home in TTM Q1 2022.
- With current pace, UNVR is expected to match personnel efficiency vs revenue by 2025 if the cost cutting effort is persistent.

04

Appendix

About Nilzon Capital



- An investment and wealth advisory firm based in Indonesia.
- Registered and supervised by Otoritas Jasa Keuangan Republic of Indonesia.
- Established in 2020 during the worst economic crisis since The Great Depression of 1929.
- Led by a highly-skilled management team with years of experience and certified qualification in investment banking and asset management.
- **We provide asset allocation advisory through stocks, ETF, fixed income securities, and alternative investments.**

Advisor Profile:

Frizon Akbar Putra (Principal Advisor, President)

Indonesian citizen, currently 29 years old. License holder of WMI No. No. KEP-210/PM.211/WMI/2016, WPEE No. KEP-18/PM.212/WPEE/2017, and WPPE No. KEP-397/PM.212/WPPE/2016.

Highly experienced in the capital market and investment banking business since the start of his career at PT RHB Sekuritas Indonesia in 2015 through 2021. Experienced in handling 11 IPO from various industries, involved in the issuance of Rp20 trillion bonds & sukuk, and engaged in various regulatory discussion with OJK, BI, and capital market SROs.

Currently member of Association of Indonesian Investment Manager Representatives and Association of Indonesia Capital Market Professionals.

Graduated with bachelor's degree in Accounting from Fakultas Ekonomi Universitas Indonesia in December 2014.

John Octavianus (Principal Advisor)

Indonesian citizen, currently 37 years old. License holder of WPEE No. KEP-45/BL/WPEE/2011.

Highly experienced in the capital market and investment banking business for more than 10 years. Currently also serving as President Director at PT Marvel Investama Asia since 2019 and as CEO at PT OrigN Teknologi Indonesia since 2021. Previously served as Head of Investment Banking at PT UOB Kay Hian Sekuritas (2018-2019), Vice President Investment Banking at PT RHB Sekuritas Indonesia (2016-2018), Senior Manager Investment Banking at PT UOB Kay Hian Sekuritas (2013-2016), Senior Manager Investment Banking at PT Maybank Kim Eng Sekuritas (2012-2013), and Associate at PT Indo Premier Sekuritas (2010-2012).

Graduated with bachelor's degree in Accounting from Fakultas Ekonomi Universitas Indonesia in 2008 and passed CFA Level 2 exam.

Nilzon Capital Key Person Ownership



Key Person	Role	Ownership in PT Unilever Indonesia Tbk.	Ownership in Unilever PLC
PT Nilzon Kapital Advisor	Company	No	No
Frizon Akbar Putra	Principal Advisor, President	Yes*	Yes*
John Octavianus	Principal Advisor	Yes*	Yes*

*) All key person effectively acquired their shares on 18 February 2022. All key person may or may not increase/decrease their ownership in the company mentioned anytime after the date of issuance of this report.

This article is written by:

Frizon Akbar Putra

John Octavianus

Nilzon Capital

PT Nilzon Kapital Advisor

Emerald Commercial UB-01, Summarecon Bekasi
Jl. Bulevar Selatan, Kota Bekasi 17142

www.nilzoncapital.com

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