

Open Analysis:

Maybe It's Time for Unilever Indonesia to Go Private

22 February 2022



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01

Executive Summary

Overview of UNVR

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- **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 part of a bigger fast-moving consumer goods (FMCG) company, Unilever PLC, which is listed in 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 London Stock Exchange.

UNVR Stock Price 10 years, Adjusted for Dividend



Enterprise Value (EV)	IDR148.53 trn
Market Cap	IDR146.12 trn
2021 Net Sales	IDR39.55 trn
2021 EBITDA	IDR8.76 trn
EV/Net Sales	3.76x
Employees (2021)	4,949

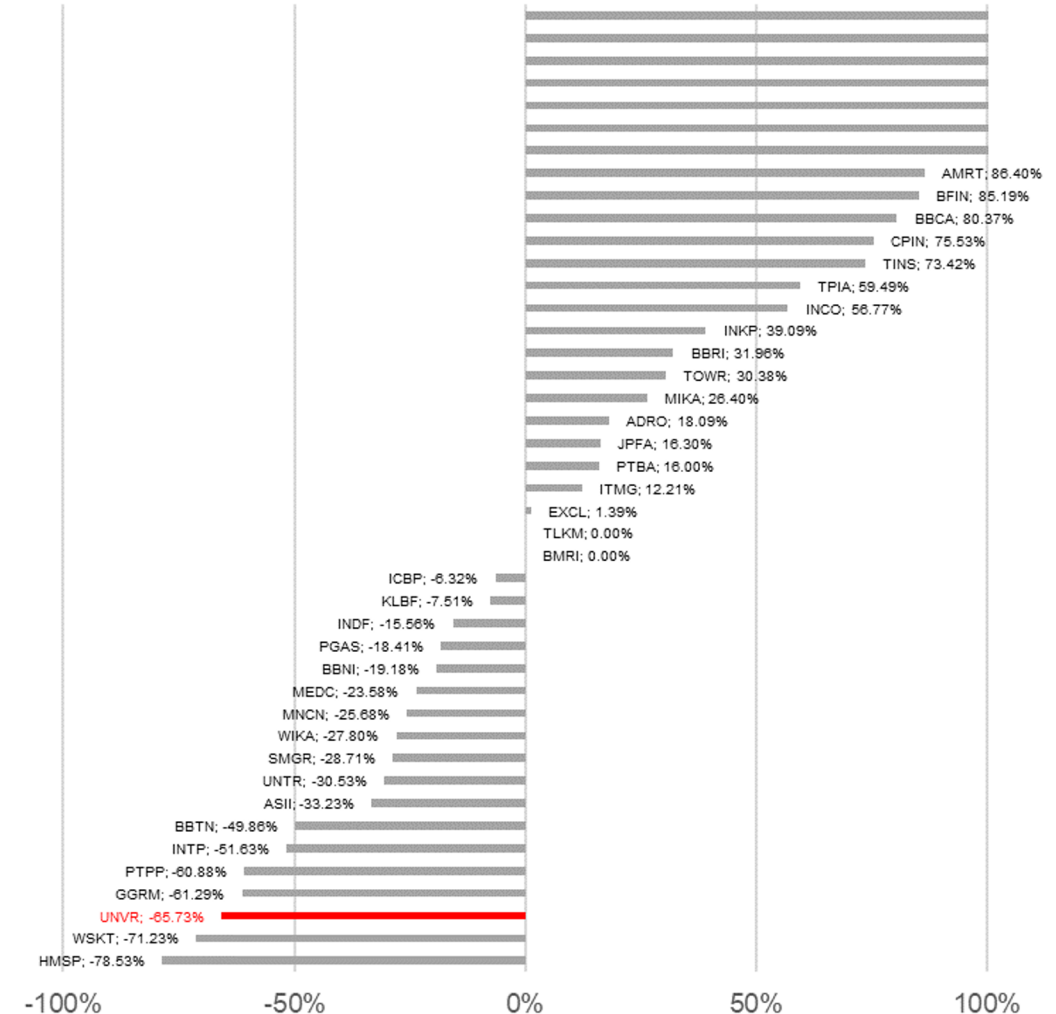
Source: Financial Report, Yahoo Finance, IDX

UNVR is Top 3 Loser in LQ45 since 2018

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- Since 1 January 2018 until early February 2022, UNVR stock performance has significantly underperforming its broader IDX Composite Index and LQ45 Index.
- The stock is now traded at **-66%** discount from its early 2018 top, or -62% when adjusted with dividend payment.
- Based on available data, the primary reasons for its underperformance may leads into:
 - Weak financial performance and chain of underdeliveries;
 - Internal management effectiveness; and/or
 - Massive weighting cut from major Indonesian indexes, particularly IDX Composite, IDX-30, and LQ-45 due to the implementation of new free-float-adjusted rule.
- Currently, independent public shareholders own 15% of UNVR.

LQ-45 Stock Performance since 1 January 2018



Source: Google Finance, only includes most-recent members

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UNVR management has consistently underdelivered

- Based on data dated back to last 12 quarters, UNVR posted negative surprise (lower-than expected financial performance) as much as 10x, leaving most analysts and investors unhappy with its fundamental, let alone its outlook.
- Zooming in to the latest 6 quarters, UNVR on average, underdelivered EPS by 13% lower than the average estimates.
- Based on 17 analysts observed by Refinitiv, only 1 has Buy rating, with 6 standby on bear camp.
- Average price target of UNVR is trending lower, indicating analysts' fading confidence on its outlook.
- All these factors may lead into further slide on the stock price, putting pressure on the management and key executives to implement radical changes to bring back investor's confidence.

Surprise Summary (Last 12 Quarters)

Surprise Type	Amount	Percent
Positive Quarters (> 2%)	1	8.3%
Negative Quarters (< -2%)	10	83.3%
In-Line Quarters (within 2%)	1	8.3%

Surprise Detail (Last 6 Periods)

Surprise Type	Announce Date	Period End Date	Actual EPS	Mean EPS	Surprise (%)
Negative	2022-02-10	2021-12-31	36.000	39.560	-9.0%
Negative	2021-10-21	2021-09-30	35.000	43.610	-19.7%
Negative	2021-07-22	2021-06-30	35.000	46.320	-24.4%
Negative	2021-04-29	2021-03-31	45.000	47.680	-5.6%
Negative	2021-02-03	2020-12-31	45.000	51.830	-13.2%
Negative	2020-10-21	2020-09-30	48.000	50.630	-5.2%

MEAN ESTIMATE TREND

	Q 22-03	Q 22-06	Y 2022	Y 2023	Price Target
Current	44.260	44.260	166.6	179.5	4,490.00
30 Days Ago	44.260	44.260	169.9	182.6	4,930.00
90 Days Ago	44.260	44.260	172.7	186.0	5,020.00
% Change (90 Days)	0.0%	0.0%	-3.5%	-3.5%	-10.6%

Current Fiscal Year End: 22-12
Next Expected Report Date: 2022-04-29

ANALYST RECOMMENDATIONS

I/B/E/S Mean: **Hold** (17 Analysts)

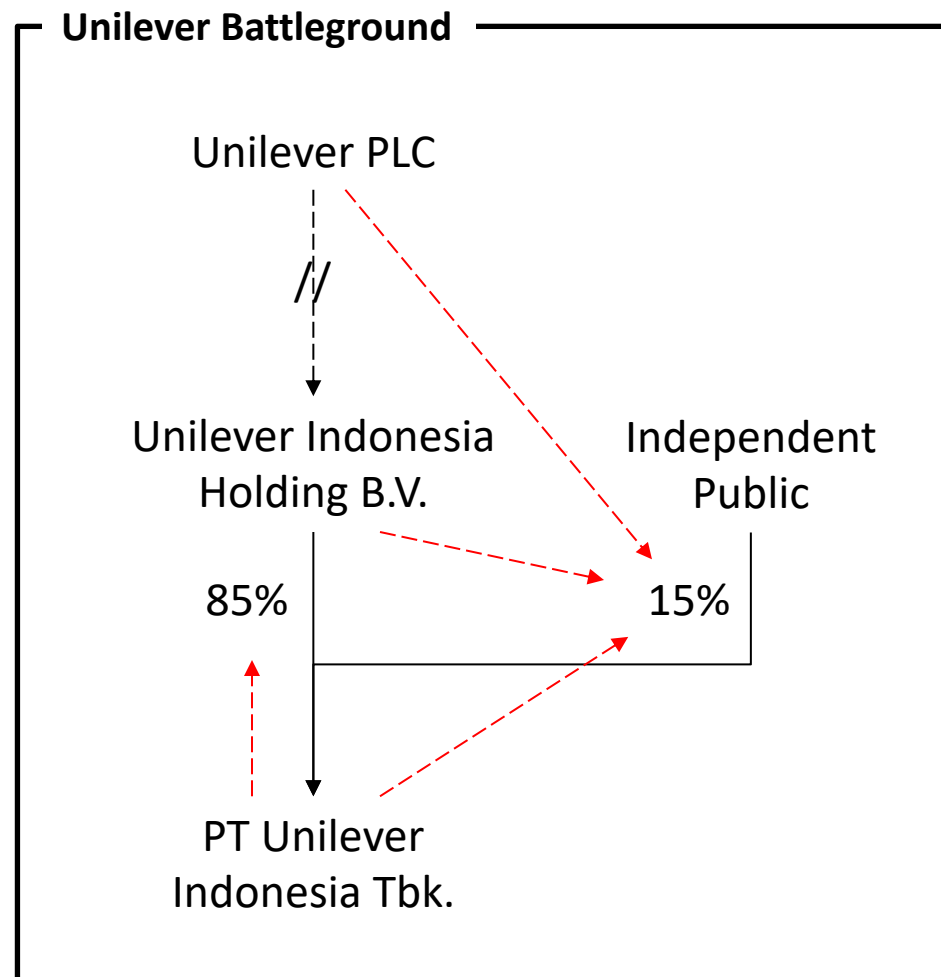
Strong Buy	1
Buy	0
Hold	10
Sell	6
Strong Sell	0

Source: Refinitiv

Somebody needs to throw a “Life Buoy” on UNVR

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- Current weak valuation may push Unilever PLC to rethink UNVR status as a public company, especially when the market failed to appreciate.
- We explore multiple possibilities of how investor, including its parent company Unilever PLC, can bring back value to UNVR.



02

UNVR Advertising Problem

Despite being continuously the single biggest expense after raw materials, advertising is unlikely to be directly correlated with net sales

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	% y-o-y change				
	2017	2018	2019	2020	2021
Net Sales	2.87%	1.45%	2.68%	0.12%	-7.97%
Advertising Expenses	-8.62%	-13.41%	10.66%	-2.35%	-6.15%
Net Income	9.61%	29.65%	-18.59%	-3.10%	-19.62%

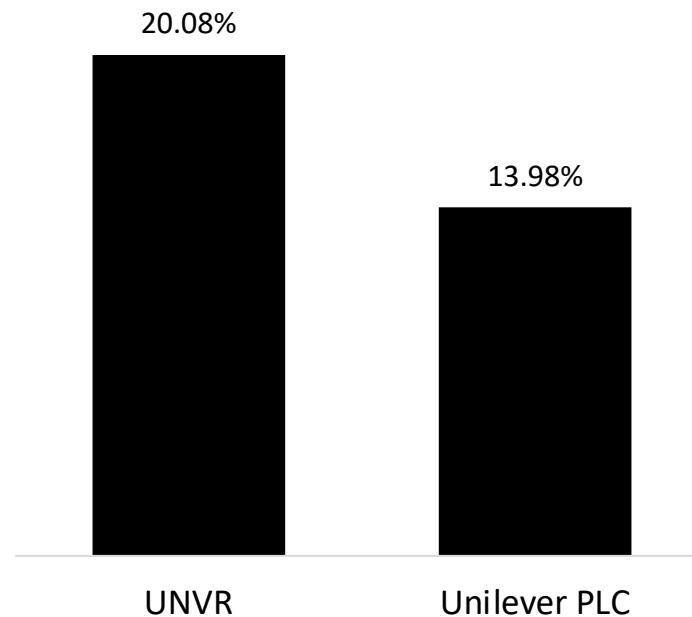
UNVR has been relying on staggering advertising expenses for decades, in which the amount was **nearly 50% of net income in FY 2021**. However, data shows that from 2016 to 2021, UNVR advertising spending **does not correlate directly with the net sales**, as shown in the table above. Therefore, the management needs to evaluate their spending effectiveness and be more responsible in allocating future advertising budget.

On the contrary, in several years during which UNVR decrease its advertising spending, the net income grows.

**Advertising expense is calculated by combining advertising and market research; and consultant fees and other services.*

When it comes to marketing and selling expense, UNVR is overlapping its parent company's spending

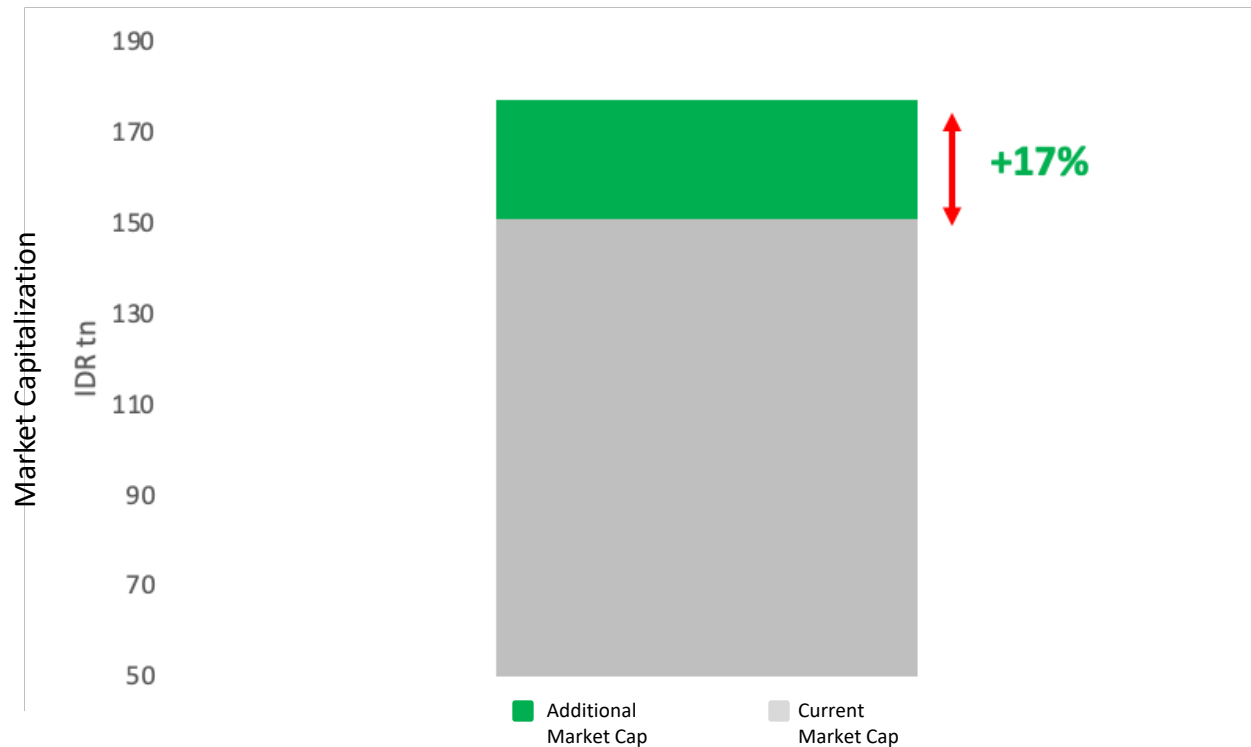
Marketing Expense as % of Net Sales (2020)



For UNVR, marketing expense is calculated from the reported marketing and selling expense. For Unilever PLC, marketing expense is calculated from the reported brand and marketing investment expense.

If the thesis holds, management can instantly bring back trillions of IDR in value for the shareholders...

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By holding the assumption in which advertisement expense does not correlate directly with the net sales, and the cut in advertising expense can directly goes to the net income, it is for the best interest of shareholders that **UNVR management should cut the advertisement expense significantly**, up to the point where it can maximizes the return to shareholders without tangible downturn in net sales.

If the management is able (and willing) to cut back the advertisement expenditure, the decision will **potentially brings back value to the shareholders as much as IDR26 trillion for every IDR1 trn cost-cut, or equal to 17% of today's market cap using current P/E multiples of 26x.**

Source: Estimate, Financial Report (UNVR), 2021

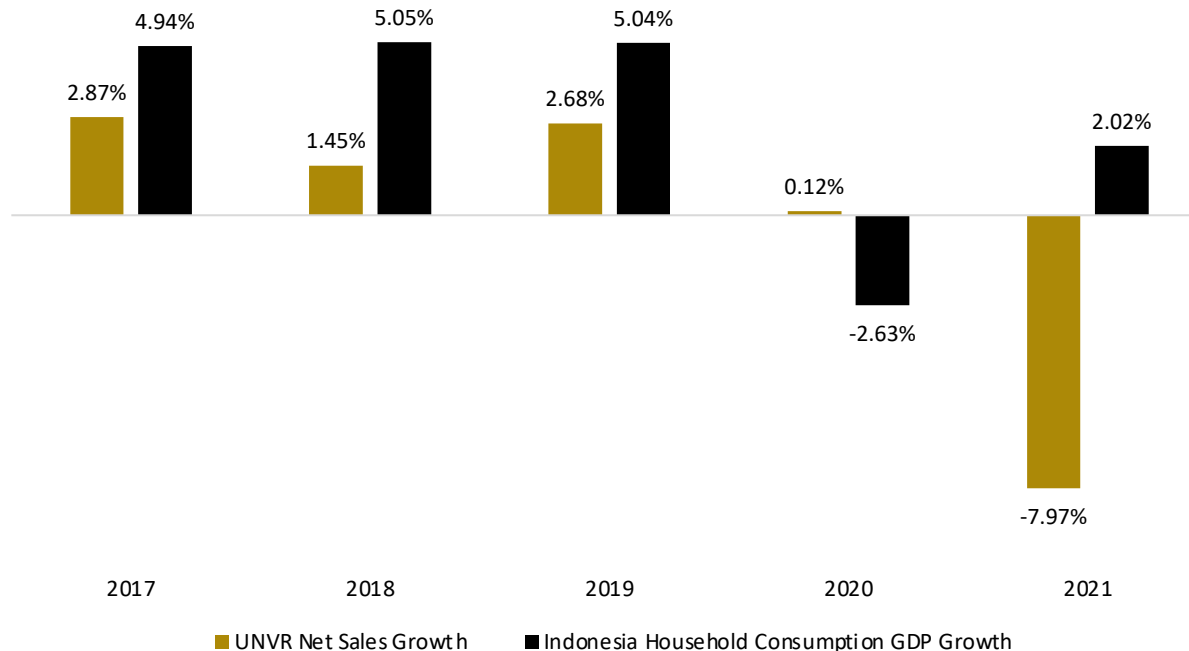
03

Shrinking Product Relevance

Most investors believed UNVR is a consumer staples company that can defend their value and perform in line with the economy in general. We found otherwise

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UNVR Underperforms General Household Consumption in Indonesia



Between 2017 and 2021, **UNVR is underperforming Indonesian household consumption GDP growth** four times out of five occasions.

This fact contradicts with common beliefs among investors: UNVR is a safe bet to withstand the economic volatility even in severe economic downturn.

It is possible that UNVR net sales growth for the past few years is primarily influenced by increase in average selling price, not sales volume, as it is the case for its parent Unilever PLC, indicating **material loss in market share**.

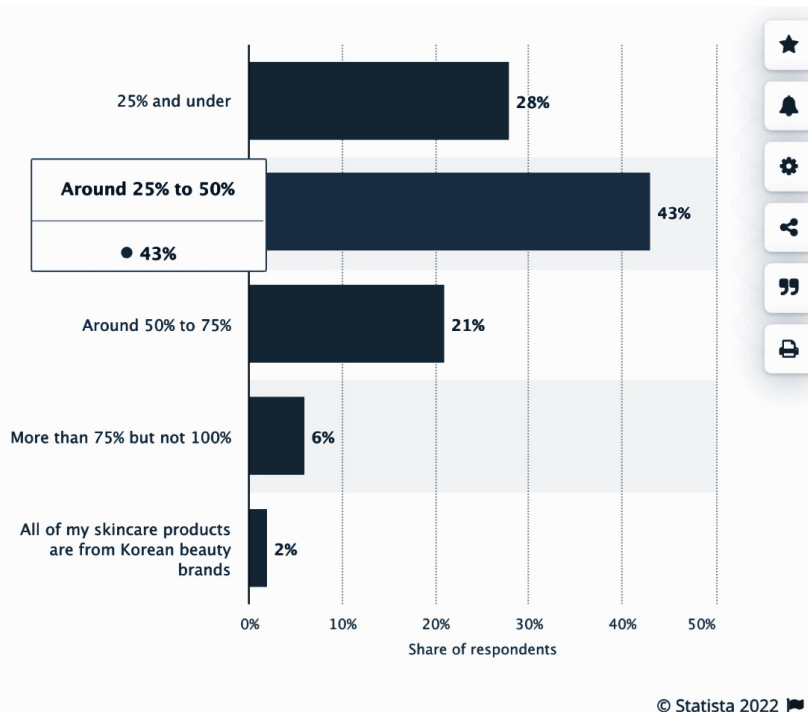
Source: Financial Report, Central Bureau of Statistics Indonesia (2021)

UNVR peers are leading in personal care brands acquisition while UNVR lags, the segment in which UNVR relies its 70% of net sales on

Brand	Acquired/Partially Acquired by
Dermstore	The Hut Group
Takami	L'Oreal
Gjosa	L'Oreal
Bentley Laboratories	The Hut Group
Deciem	The Estee Lauder
Atolla	Function of Beauty
DermaDoctor	NovaBay Pharma
Universelle Buly	LVMH
Cosrx	Amorepacific
Sol de Janeiro	L'Occitane
Ouai	P&G
Youth to the People	L'Oreal
Paula's Choice	Unilever
SK-II	P&G

Source: Beautypackaging.com, 2021

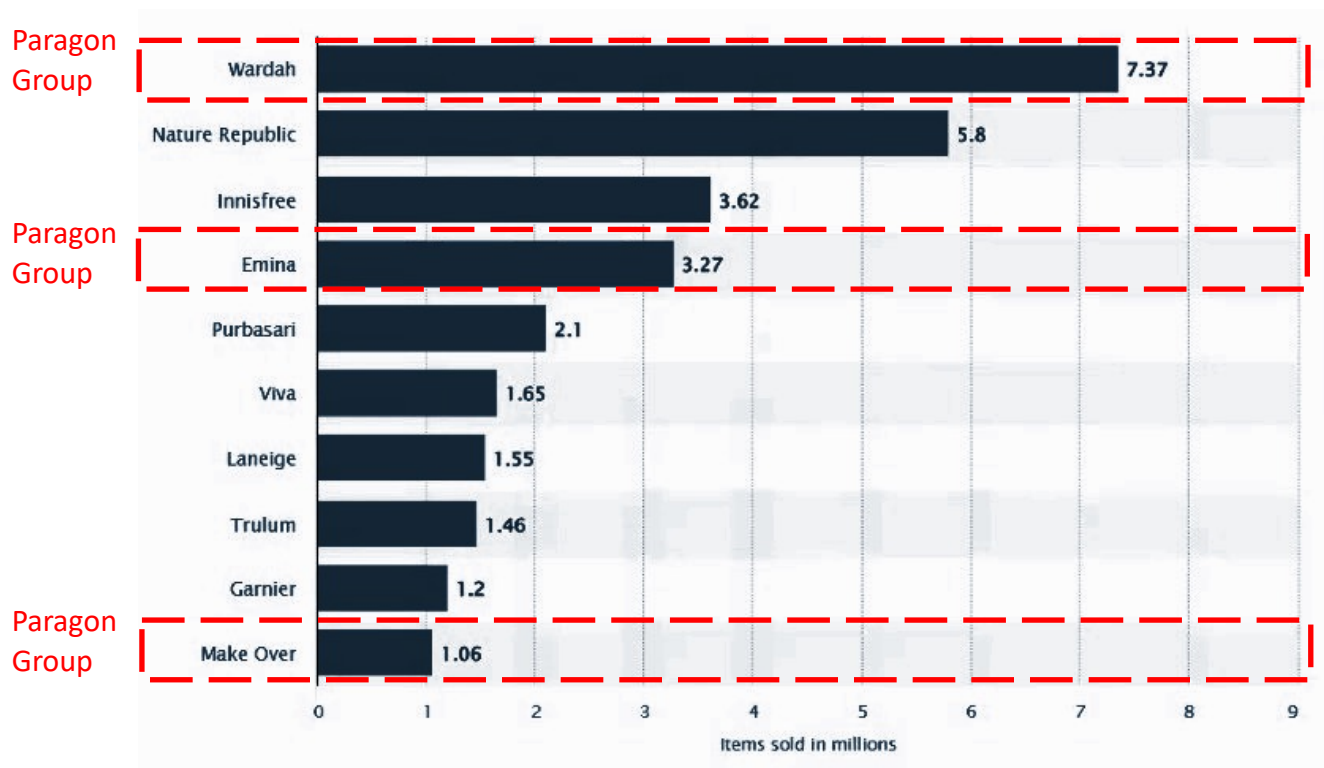
Share of Korean beauty products out of all beauty products owned



- Korean Personal Care and Cosmetic brand has proven to acquired significant footings worldwide, including in Indonesia. Around 43% of Indonesian respondents claimed to have at least 25-50% Korean brands for their personal care (Rakuten Insights and Statista survey 2021).
- In 2021, most of Unilever peers have acquired several brands in Personal care segment. Competitors like L'Oreal and P&G are fighting to get the expanding cake of skincare beauty products by acquiring emerging brands such as SK-II, Takami, Gjosa, Ouai, among others.

Emerging consumer sentiment to use local brands

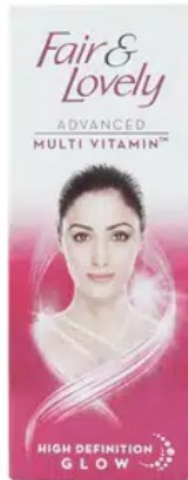
Leading cosmetic brands sold in major online stores in Indonesia as of January 7, 2020, by number of items sold



Source: Rakuten Insight, Statista 2021

- Among cosmetic brands surveyed by Hanadian-Nurhayati-Wolff in 2021, none of the Top 10 brands belongs to Unilever. The survey is an analysis of products sold from three online stores that are visible to the public: Tokopedia (15.3 mn products), Bukalapak (4.6 mn products), and Shopee (2.3 mn products).
- Based on different report issued by Sigma Research in 2016, UNVR's Pond's still belongs to the Top 10 five years earlier. However, both reports listed Wardah as #1 for multiple years.
- This is despite the fact that Unilever has wide range of beauty and personal care products such as Citra, Glow & Lovely, Love Beauty & Planet, Pond's, Simple, St. Ives, Suave, and Vaseline.
- UNVR is in a good shape to win the beauty products if they are able to secure the deal to acquire Paragon Group which owns Wardah, Emina, and Make Over. All three products are popular among millennials and Gen Z, which can further support UNVR growth in HPC segment.

Some of Unilever brands are in the spotlight following the BLM movement



Citra Body Lotion
Night Whitening

Public outrage over racism in beauty products has impacted Unilever brands nonetheless. This enforce Unilever to rethinking (or even renaming!) their brand preposition to prevent stereotyping among customers.

Regarding its previous Fair & Lovely brand, one critic says "This product has built upon, perpetuated and benefited from internalised racism and promotes anti-blackness sentiments."

Despite its effort, many of Unilever's products are still using sensitive words such as *whitening*, *white beauty*, and others on its label.

Not only losing market share, UNVR has repeatedly fail to enter new market despite rich with resources

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Pure-It Water Purifier



Pureit purification system is a compact drinking water treatment product suitable for household use. The core of this system is its unique Germkill Battery Kit which consists of the Compact carbon trap, Germkill processor, and Polisher. Each of these kits performs a certain treatment method.

Fate: Bad consumer acceptance in the country where the problem with tap water is not only germs, but also lack of water supplies and unworthy water quality. Not to mention periodic maintenance to clean/replace the purification parts.

Sambal Jawa



With a unique blend of fresh local chilies and fried onions, Jawa offers a spicy and savory taste that is different and cannot be found in other chili sauces. In presenting a new spicy sensation for the people of Indonesia, Jawa as a product that is 100% original from Indonesia, synergizes with local industry players.

Fate: Failed to shake monopolies by ABC, Indofood, and Dua Belibis which together holds 94% market share (Top Brand Award 2019, when Jawa has been around for at least three years by then).

One article from Harvard Business Review says Unilever were able to increase both profits and sales by methodically killing brands in 1999. It may happen again in the future

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“Unilever had 1,600 brands in its portfolio in 1999, when it did business in some 150 countries. More than 90% of its profits came from 400 brands. Most of the other 1,200 brands made losses or, at best, marginal profits.”

- “Kill a Brand, Keep a Customer” by Nirmalya Kumar, 2003

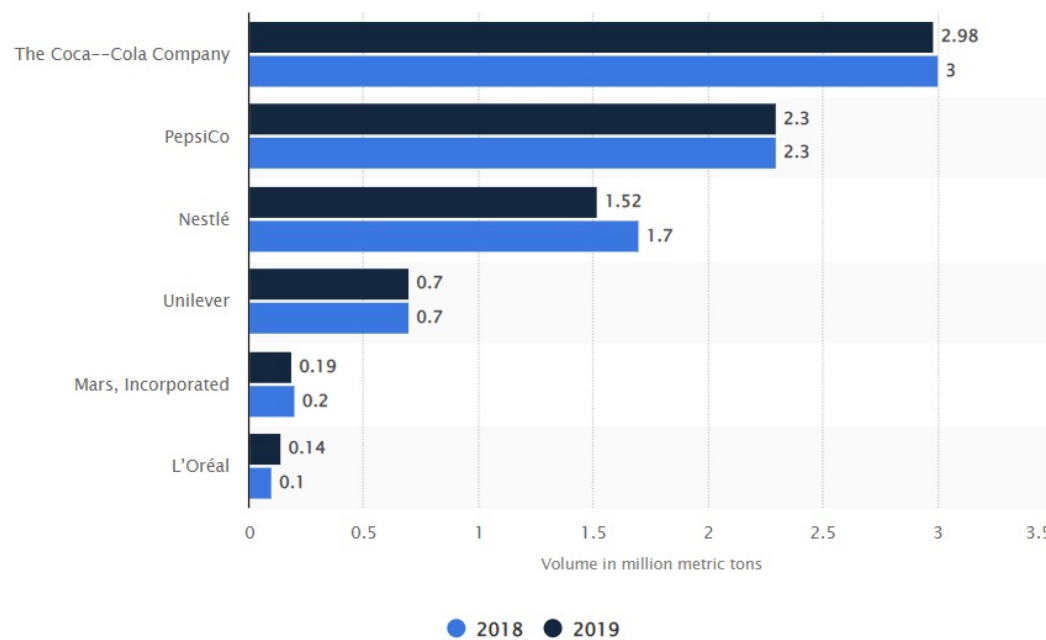
Plastic waste from Unilever products are concerning

Fast-moving consumer goods companies oftentimes rely on single-use plastic packaging for their products, and Unilever is no exception. According to Statista, Unilever's annual usage on plastic packaging reached to around 0.7 million metric tons in 2019, resulting in **it being the third biggest corporate plastic polluter.**

In answer to this problem, beginning in 2017, Indonesian UNVR has promoted its pilot project on waste recycling technology called **CreaSolv Process to recycle these sachets packaging.**

However, after two years, an investigation from the Global Alliance for Incinerator Alternatives (GAIA) stated that **UNVR has stopped its operations due to logistical, financial and technical challenges.**

Annual plastic packaging volume used by select companies worldwide in 2018 and 2019



Source: Statista

UNVR may be too late in reducing its long reliance on plastics and has become a drawback during commodity inflation

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Globally, **Unilever uses about 700,000 metric tonnes of plastic packaging.** There has been no significant changes in overall consumption since 2017 despite their internal target to use recycled plastics for at least 25% of their packaging. In fact, we are yet find any clear evidence of any intention from the management to stop using plastics in their packaging. Their mission is instead to use recycled, use less, or use better plastic.

In fact, during 2015-2020, oil price hovers around \$50/bbl, which provide a window of opportunity for Unilever to reallocate its spending on research to find replacement for plastic packaging. However, the **commodity inflation in 2021-2022 has sent crude price back to almost \$100**, potentially decreasing Unilever net margin and force them to further increase its ASP to make room for profits.

Therefore, **Unilever needs a radical shift on its packaging strategy to significantly stop its reliance on plastics**, for its environmental and economic purposes.

Crude Oil WTI (NYM \$/bbl) Front Month 2010-2022



Source: MarketWatch

Unilever Global Disclosure on Plastic Use

How much plastic do we use?

We measure our total plastic packaging footprint and the amount of each type of plastic that we use. We're working to measure and report data on plastic use in more Unilever markets.

2017	2018	2019	2020
700,000 metric tonnes	711,000 metric tonnes	690,000 metric tonnes	690,000 metric tonnes

Source: Unilever.com

Example of substitute consumer products with zero plastic waste

Detergent



Dropps Laundry Detergent Pods

Pods are made from polyvinyl alcohol (PVOH) which is non-toxic and dissolvable in any type of machine washer (cold temperatures included).

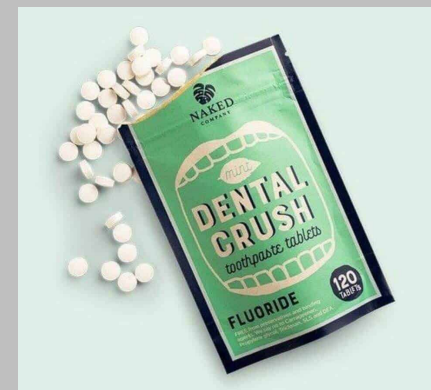
Skincare



The Body Shop

They provide in-store boxes to store empty plastic bottles for recycle purpose. Customers get financial rewards or loyalty point.

Toothpaste



Naked Dental Crush

Dry tablet that enable the producer to use paper packaging. No foaming and stabilizing agents, 100% cruelty-free and vegan.

Soap



SoapBottle

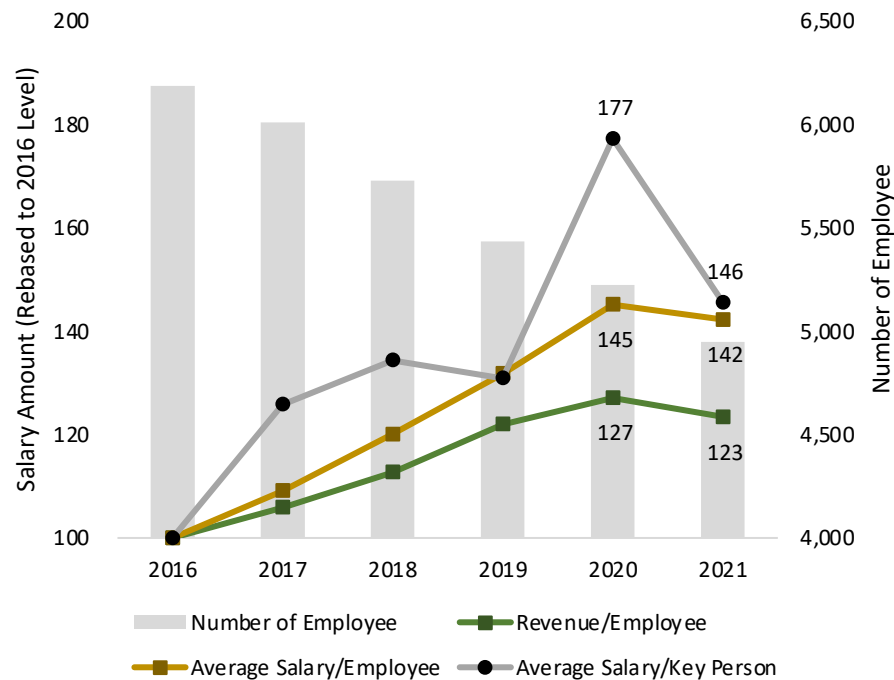
With repeated use, the bottle will gradually dissolve over time, leaving only remnants that can be recycled into liquid soap or detergents.

04

Gap in Management and Personnel Effectiveness

On average, UNVR employees are being paid more for less. The gap is even wider among its top executives

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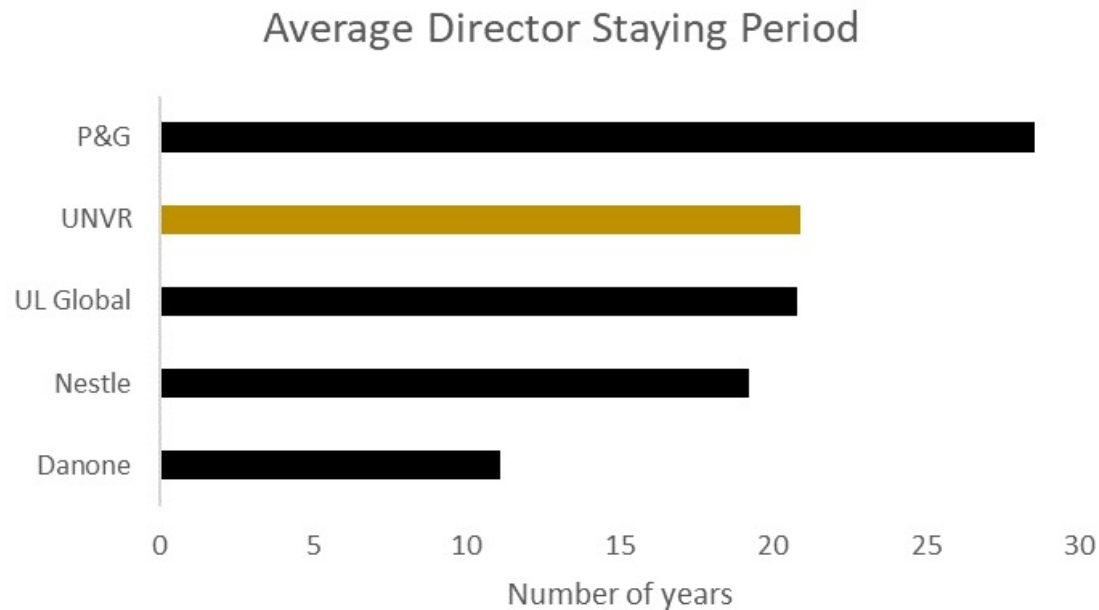
Source: Financial Report

1 In 2021, UNVR average salary per employee has risen by 42% compared to 2016. However, the net sales per employee has only risen by 23% during the same period. This resulting in **productivity gap of 19%**, indicating that the management has failed to improve productivity and efficiency despite their effort to reduce overall headcount.

2 The productivity gap is even wider among the key management personnel, in which the **management managed to pocket 77% increase in salary level** between 2016 and 2020, while the Company net sales only grew a mere 7%.



UNVR has the tendency to overestimate internal talents qualification, making the director positions almost only exclusively available to insiders



*Based on its disclosure, around 6 out of 9 directors in UNVR haven't leave the Company since graduated from bachelor's degree.

Source: P&G, Unilever Indonesia, Unilever PLC, Nestle and Danone Annual Report 2020

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From Annual Report 2020,

Our Company policy is to prioritise internal promotion where possible. More than half of the current Board of Directors were promoted from within Unilever Indonesia.

The Human Resources Division plays a key role in succession by identifying and developing talent with leadership potential within the organisation. These future leaders have access to fast-tracked development programmes that prepare them for strategic management roles.



By prioritizing internal promotion, it may be **harder for UNVR to perform radical changes demanded by independent public shareholders.**

Each member of directors' performance is being evaluated by...themselves

The results of the Board of Directors' self-assessment are reviewed by the Board of Commissioners. The results of both the Board of Commissioner's assessment and the self-assessment are presented to the Annual General Meeting of Shareholders, and are taken into consideration in decisions on the reappointment or termination of members. They are also considered in the calculation of the remuneration, bonuses and incentives received by the Board of Directors.

Assessment Criteria

The performance assessment criteria for the BoD are:

1. The implementation of the tasks and functions of each Director;
2. The financial and business performance of the Company;
3. The Company's compliance with regulations;
4. The implementation of GCG by each Director;
5. The level of attendance of each Director at BOD meetings;
6. The involvement of each Director in specific assignments.

Assessing Parties

“

Members of the Board of Directors assess their own performance every year. Their performance is also evaluated by the Board of Commissioners, and by the Shareholders through the mechanism of the AGMS.

Paragraphs quoted from UNVR FY 2021 financial report.

On the annual report, UNVR disclosed that the primary party for director performance assessment is themselves, which subject to further evaluation by the board of commissioners.

It may be lacking objectivity, peer review, and tend to overestimate executives' capability for own economic interests.

It will be fairer for shareholders if UNVR management compensation package is directly associated with the share price and is capped, which it is currently lacking of

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Indicators for Determining Compensation Packages

Every Director and Commissioner is entitled to receive remuneration commensurate with their responsibilities and the experience, knowledge and skills they bring to the Company. In calculating the remuneration amount, the Nomination and Remuneration Committee may also consider other factors, for example:

“

- › Results of periodic salary and benefit benchmarking against peers in the FMCG industry;
- › The Company's financial performance and fulfilment of its financial obligations;
- › The collective and individual performance and achievements of the respective Directors and Commissioners, based on the performance assessments;
- › The duties, responsibilities and authority of each member of the Board of Directors and Board of Commissioners; and
- › The achievement of short-term or long-term performance goals that are aligned with the Company's strategies.

Structure of Compensation Packages

The remuneration package for Directors comprises a salary, allowances, bonuses and post-employment benefits.

Paragraphs quoted from UNVR FY 2021 financial report.

As a global-class company, UNVR is lacking share performance as BOD's compensation indicator. **UNVR can also implement share reward program for its management to maximize alignment between executives' financial interest and those of investors'.**

Biggest yet, UNVR is paying 3%+ of its total turnover every year for “borrowing” strategic leadership from Unilever PLC and its entities

On 11 December 2012, the Company and Unilever PLC (formerly Unilever N.V.), which is the ultimate parent entity of the Company, entered into agreements for trademarks, technology licenses and central services as renewals of the above mentioned agreements. These renewal agreements are effective from 1 January 2013, with principal terms as follows:

- 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.

Paragraphs quoted from UNVR FY 2021 financial report.

Beban signifikan yang dikenakan oleh pihak berelasi:

Significant expenses charged by related parties:

	2021	2020	
Merek	949,089	1,020,937	Trademark
Teknologi	646,960	745,247	Technology
Biaya jasa dan biaya Enterprise Technology Solutions	1,469,453	1,516,983	Service fees and Enterprise Technology Solutions fees
Jumlah	3,065,502	3,283,167	Total
Sebagai persentase dari jumlah beban umum dan administrasi	75.06%	75.35%	As a percentage of total general and administration expenses

Source: Financial Report

Although the compensation paid to Unilever PLC and its entities for Central Service Agreement and ETS Agreement is capped at 3.00% and 0.50% respectively, **UNVR still paid 3.72% of net sales** for those two services in 2021.

05

Buyback Now or Go Private

UNVR is almost missing every critical aspect of good corporate governance from independent shareholders' standpoint

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BARE MINIMUM OF
INDEPENDENT PUBLIC
OWNERSHIP

15%

of Independent Public Ownership, only slightly above 10% of minimum requirement by IDX.

MANAGEMENT POSITION
ONLY AVAILABLE EXCLUSIVELY
TO INTERNAL PROTÉGÉ.

21+

years on average required by internal personnel to climb UNVR corporate ladder before joining board of directors.

MANAGEMENT
COMPENSATION IS
DISCONNECTED FROM
COMPANY'S FINANCIAL
PERFORMANCE.

77%

board of directors average salary increase in 2016-2020 vs 7% increase in net sales during the same period, resulting in **severe productivity gap** among key personnel.

UNILEVER PLC IS SINGLE-HANDEDLY CONTROLLING INTERNAL CASH FLOW AND EXPENDITURES, LEAVING UNVR VULNERABLE TO OVEREXPLOITATION FOR OWN GROUP'S INTEREST.

138%+

of net income is made as a payment to parent company and its entities in exchange for only 85% ownership.

For decades, UNVR is being exploited by parent company while Indonesian investors are risking their life savings without apparent benefits

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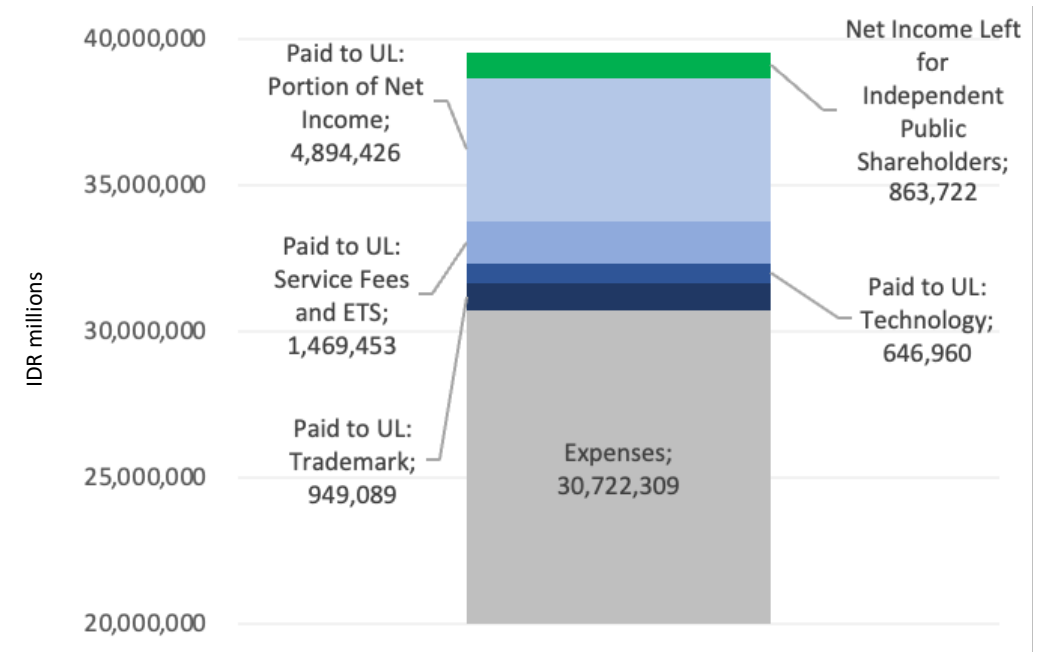
UNVR Stock Price 10 years, Adjusted for Dividend



Source: Yahoo Finance

UNVR shares reversed all of its 10 years gain, even after adjusted with dividend payments. This is indicating that almost every faithful UNVR long-term holders are losing their investment value and suffer opportunity costs. **Only one is not: Unilever PLC** as the ultimate beneficiary.

FY 2021 Revenue Breakdown based on Expenditures and Payments



Source: Unilever Indonesia Financial Report 2021 (UL is abbreviation for Unilever PLC entities)

Out of 100% net sales in FY 2021, **at least 20.13% is transferred directly to companies beneficially owned by Unilever PLC**, worth nearly IDR8 trn, significantly greater than UNVR net income for the year of IDR5.8 trn. The net income portion for independent shareholders is only a mere 2.18% of its net sales.

Yet, UNVR is unloved by Unilever PLC

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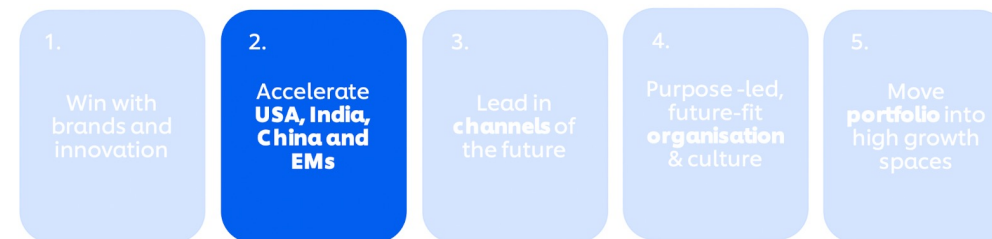
Screenshot on the right is taken from Unilever PLC presentation to shareholders in early 2022. In one of management's strategic priorities, USA, India, China and EMs (emerging markets) are highlighted to be the key performance drivers.

However, most of the discussion is only focused on the first three, leaving EM only for jargon.

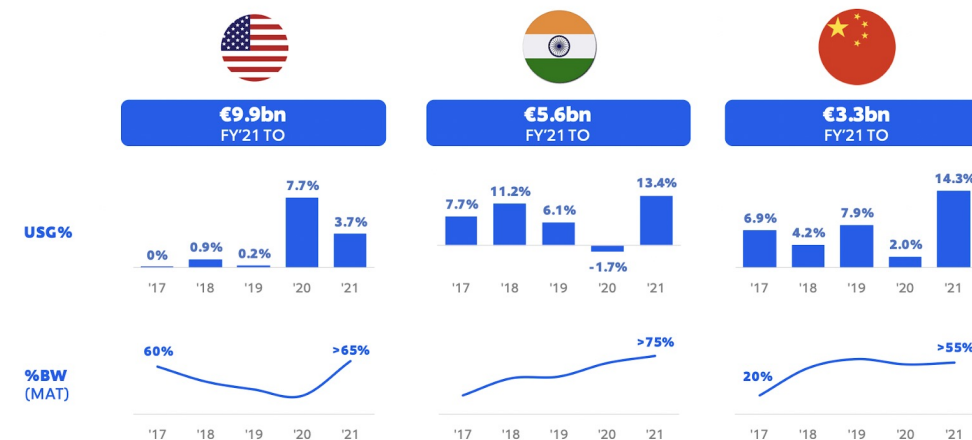
On their latest 2021 earnings call: **"All three of highest priority countries [US, India, China, red.]... they do remain a key focus for innovation, for investment and capabilities, for talent development and for capital allocation."**

How about Indonesia? Unilever PLC wrote this on their FY 2021 report: **"weak competitive performance in Indonesia."** and **"our Indonesian business performance was poor in a highly competitive market."**

The management tend to blame Indonesian market, while in fact they underperform Indonesian Household Consumption growth at the same time.



2. Accelerating in USA, India and China



Source: Unilever PLC Presentation 2021 and its earnings call transcript

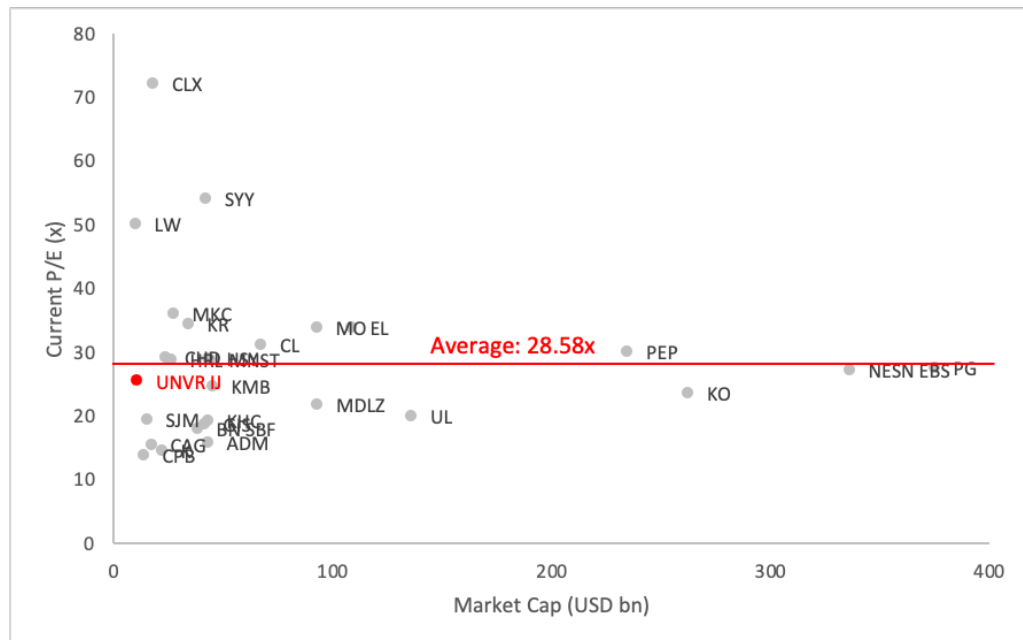
26

UNVR is currently undervalued, but only if its earnings stop declining

Based on selected global consumer staple companies under our observation, **UNVR is 10% undervalued based on P/E multiples.**

This discount over global peers may be justified, considering **UNVR is highly likely to continue its EPS downtrend**, making forward valuation unattractive. Moreover, **UNVR has consistently missing analysts' estimates for the past six quarters.**

However, despite the discount, UNVR 25.57x P/E ratio is higher than its parent company Unilever PLC which has 19.78x P/E multiple, signaling nervous among investors on Unilever and its group profitability.



Surprise Detail (Last 6 Periods)

Surprise Type	Announce Date	Period End Date	Actual EPS	Mean EPS	Surprise (%)
Negative	2022-02-10	2021-12-31	36.000	39.560	-9.0%
Negative	2021-10-21	2021-09-30	35.000	43.610	-19.7%
Negative	2021-07-22	2021-06-30	35.000	46.320	-24.4%
Negative	2021-04-29	2021-03-31	45.000	47.680	-5.6%
Negative	2021-02-03	2020-12-31	45.000	51.830	-13.2%
Negative	2020-10-21	2020-09-30	48.000	50.630	-5.2%

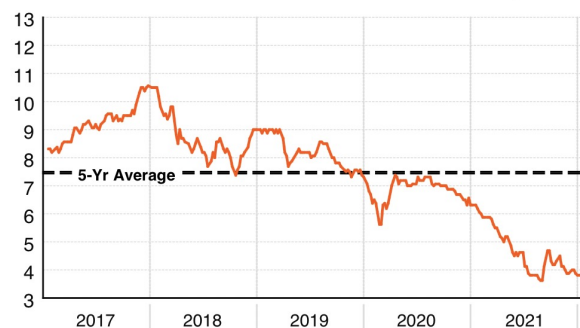
Source: Refinitiv

Undervaluation is more obvious when compared with historical multiples

PRICE TO SALES

The most recent week's close price divided by the revenue per share.

Price to Sales: 3.8
5-Year Average: 7.5
IDX Comp Index Average: 2.1
Personal Products & Services Group Average: 2.9

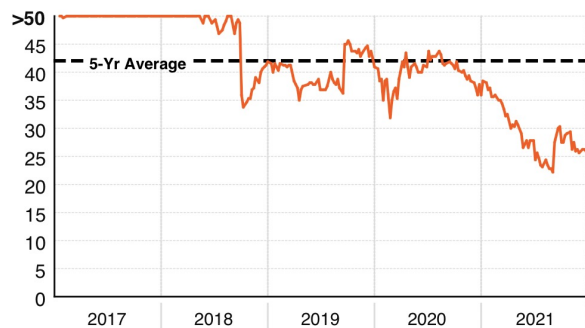


Source: Refinitiv

TRAILING PE

The most recent week's close price divided by the sum of the four most recently reported quarterly earnings.

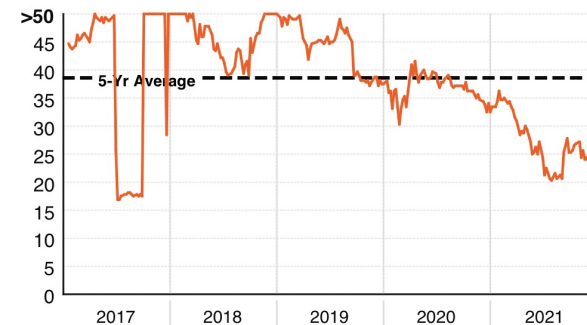
Trailing PE: 25.6
5-Year Average: 42.3
IDX Comp Index Average: 23.0
Personal Products & Services Group Average: 26.2



FORWARD PE

The most recent week's close price divided by the sum of the four upcoming quarterly consensus estimates.

Forward PE: 21.9
5-Year Average: 38.8
IDX Comp Index Average: 22.2
Personal Products & Services Group Average: 22.4



Based on price to sales ratio, trailing P/E ratio, and forward P/E ratio, UNVR is currently traded at the **lowest point** at least for 5 years prior.

Given its weak valuation, UNVR is better-off buying back its own shares and use more debt leverage to extinguish higher cost of equity capital

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UNVR cost of debt capital is extremely low, yet the Company hasn't make any good use of.

Loan	Interest Rate p.a.	Loan Type
HSBC 1	3.15%	Working Capital
HSBC 2	3.10%	Working Capital
MUFJ 1	3.20%	Working Capital
MUFJ 2	3.14%	Working Capital
Deutsche	3.30%	Working Capital
W.Avg.	3.16%	

Source: Financial Report

Considering its strong balance sheet and earnings power, we expect UNVR to be eligible for long-term bank loan with interest burden at least similar to those of Indonesian Government (c.6.50% for 10yr), as it is the case for the past few years.

UNVR capital structure is tilted towards all-equity financing, making WACC unnecessarily high. **Discipline share buyback fueled by income streams and debt capital will be highly beneficial for UNVR shareholders in the long run.**

Risk-free rate	: 6.50%
Beta	: 0.91
Equity Risk Premium	: 6.12%
Cost of Equity (CAPM)	: 12.07%
Debt Capital %	: 1.25%
Equity Capital %	: 98.75%
WACC	: 11.95%

We calculate UNVR debt capital by adding all interest-bearing debt (consisting only of working capital loan from HSBC, MUFJ, and Deutsche) and excluding trade liabilities and employee benefits.

Independent shareholders of UNVR will be highly incentivized if UNVR is buying back shares beneficially owned by Unilever PLC

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Capital*

Now we know that buyback is imminent and crucial to bring back value to the shareholders. However, we see UNVR should not buyback shares from independent public shareholders and instead **buying back shares beneficially owned by Unilever PLC** for the following reasons:

- 1** **Unilever PLC control almost every critical aspects of UNVR operation** and future planning, and also likely includes information about intrinsic value of the Company, making it one of the **biggest conflict of interest** between manager-owner in corporate history.
- 2** Buying back shares from independent shareholders will only force these unaware mom-and-pop investors to **realize their losses and transferring wealth** for the benefits of Unilever PLC.
- 3** **Share buyback will likely boost EPS, lower P/E**, and benefit independent public shareholders in the long-run, rewarding them with financial benefits in exchange for loyalty and trust in the Company.
- 4** **Unwillingness to sell** at current weak valuation will send signal to the market that **UNVR is indeed undervalued**, perceived by its own parent entity standpoint.

Or, this is maybe the right moment for Unilever PLC to consider making UNVR private by tendering public shares amidst its cheap valuation, or by swapping UNVR shares into Unilever PLC shares

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Alternative 1: Cash Buyout

Current market value of UNVR owned by independent shareholders is IDR22 trn. If UNVR can managed to secure funding from bank loan or marketable debt with 5% interest per annum (compared to 3.16% for its working capital loan), **Unilever PLC as the ultimate owner will be better-off even with additional financing charge (and tax-shield).**

IDR millions

2021	Actual	Complete Buyout
Operating Profit	7,679,451	7,679,451
Additional Debt Burden	-	1,100,000
Pretax Income	7,496,592	6,579,451
Net Income	5,758,148	4,934,588
Unilever PLC Share of Net Income	4,894,426	4,934,588

Source: Financial Report, Estimate

Even without additional debt, it only takes Unilever PLC 2.5 months of its free cash flow to purchase remaining portion of UNVR shares, yielding a recurring **3.93% return on investment**, slightly higher than Unilever PLC's return from its own buyback program (3.88% dividend yield of Unilever PLC).

Alternative 2: Share Swap

Share swap will still make UNVR surrender its public-listed status by going private, but **without any cash paid** to UNVR independent shareholders. Instead, Unilever PLC shareholders can surrender insignificant amount of its stake to secure 100% ownership in UNVR at current cheap valuation.

Furthermore, IDR22 trn of UNVR independent shareholders value is roughly 29,674,000 of Unilever PLC shares, in which Unilever PLC can release back from its 62,976,145 of shares in treasury reserves.



UNVR shareholders attending Unilever PLC shareholder meetings.

All of these alternatives are beneficial to harmonize the relationship between Unilever PLC as the manager-owner of UNVR with Indonesian public independent shareholders.

Furthermore, it will align both parties' interests in UNVR and improve corporate governance quality.

If UNVR is decided to be taken private, the management will have time to re-consolidate its business performance and improve internal efficiencies.

06

Appendix

Do you have UNVR shares and don't know what to do about it?



If you are:

- Individual investor;
- Corporate investor;
- Insurance company;
- Pension fund;
- Discretionary fund manager; or
- Mutual fund manager;

currently owns UNVR shares and unsure what to do about it, explore your options by sending us an email with **your name (or institution name)** and **your phone number** no later than 31 March 2022 to:

unvr@nilzoncapital.com

We provide no guarantee that your email may be responded to in full, in part, or not responded at all due to our internal policy and capacity.

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 persons effectively acquired their shares on 18 February 2022. All key persons 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:

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registered and supervised by:

