PERFORMANCE ASSESSMENT PROJECT
CASE OF UNILEVER

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This document intends to help students in the field of finance developing their skills in assessing the performance of a company, using the financial statements in the context of the corporate strategy and financial policy. As such, this document explains what is required for the fieldwork, using the UNILEVER as the subject of analysis. Your report should evidence your own style and approach in terms of using the data and presentation skills. So please, do not feel restrained, whatsoever, by these guidelines. I wrote these guidelines with the intention to help students that eventually need more guidance or for those that prefer to see a more clear path in front of them. Therefore, among other things, the following topics must be covered in your report, not necessarily by this order.

For this analyse you need from 3 to 5 years of historical financial data to analyse the evolution of the economic and financial data. Annual Reports are preferably to financial statements only. The board report, the notes to the financial statements and the auditor's report have plenty of information that are useful to understand the overall accounts.

If you benchmark the company against one or more competitors is better than use exclusively data from the company. For this benchmark, you may choose only few and more critical ratios than use all your battery of ratio.

1. Identify the industry socio-economic-technological characteristics

You may use various approaches from the field of strategy to analyse the industry. For example:

- Value chain analysis — the activities that creates value in the chain of the industry from research & development, product design, manufacture, marketing and distribution of the firm's products and/or services.
- Value drivers in the business that make companies more competitive.
- Who are the major players in the industry and their strategic position in comparison to the firm under analysis?
- Porter's Five Forces.

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- SWOT analysis

With this analysis, you will understand the position of the company and its potential for value creation.

2. Identify the corporate strategy of the firm

Analyse the relevant characteristics do the products/services offered by the company such as: i) portfolio of products and their uniqueness; ii) innovation; iii) level of prices; iv) products image and brand loyalty; v) level of profit margins; vi) internationalization; vii) supply chain integration; viii) Diversification: geographic, industry, products; ix) technology

If Segmentation and Diversification is an issue, explain in your view the strategic positioning of the company

3. Assess the quality of the firm’s financial statements

Review the key financial statements within the context of the relevant accounting standards. In examining financial statement accounts, issues such as recognition, valuation and classification are keys to a proper evaluation.

The main question should be whether the balance sheet is a complete representation of the firm’s financial position. Are the financial statements certified? What do auditors report that is relevant for your analysis?

When evaluating the income statement, the main point is to properly assess the quality of earnings as a complete representation of the firm’s economic performance.

Evaluation of the cash flow statement is understanding the impact of the firm’s liquidity position from its operations, investments and financial activities over the period. Funds from operations and cash flow from operations are sufficient to finance investments? Financing activities from banks and shareholders. The essential is to understand where funds came from, where they went, and how the overall liquidity of the firm was affected.

The steps that follow, besides some number crunching, it is where financial professionals can really add value in the evaluation of the firm and its financial statements, offering their view in terms of the financial policy and the performance of the company. The most common analysis tools are key financial statement ratios relating to financial strength and liquidity including debt management and coverage, working capital requirements efficiency management and fixed asset management, profitability, and operational and financial risk and market valuation.

For this project, you must analyse the financial accounts as was delivered in class.

4. Analyse the financial strength of the firm

With respect to financial strength, it is common to analyse some more traditional ratios, using the accounting balance sheet and a managerial view of the balance sheet.

Typical traditional ratios are such as i) Liabilities to Assets; ii) current liabilities to liabilities and iii) liquidity ratios.

The managerial view requires you to structure the balance sheet with the items to evidence the invested capital from one side and the capital employed from the other side. You will also use data from income statement and from the cash-flow statement to have a less static view of the financial strength. You typically analyse: i) debt ratio; ii) structure of debt; iii) coverage of interest expenses; iv) coverage of debt including net debt to EBITDA; v) coverage of short-term debt; vi) coverage of interest expenses; vii) working capital; viii) liquidity from the working capital structure; ix) Efficiency in managing the cash conversion cycle; and x) the financing strategy.

5. Analyse the profitability of the firm

With respect to profitability, there are two broad questions to be asked:

i. How profitable are the operations of the firm relative to invested capital. This analysis should be independent from how the firm finances its operations
ii. How profitable is the firm from the perspective of the equity owners.

It is also important to learn about the drivers of the profitability, as a consequence you may use the additive model you learn in class to disaggregate return measures into primary drivers.

6. Analyse the risks of the firm

Mapping the risks, the company may face in the present and in the future, is crucial to the management to advance with preventive measures.

From the annual financial accounts report, and other documentation you read from and about the company, you may be able to list the major risks the company is facing and why.

Operational risk and financial risk can be analysed using the breakeven analysis and the safety margin analysis. Alternatively, you also use the operational levered ratio, financial levered ratio and the combined levered ratio.

7. Final comment

Lastly, it is critical to analyse financial data in a comparative manner. Looking at the current ratios and other financial data:

i. In relation to those from earlier periods;

ii. Relative to other firms preferably (major competitors) or, otherwise industry averages.

Good luck