Barclays: Fireside Chat with Fernando Fernandez

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Warren Ackerman

Hello everybody. I'm Warren Ackerman, Head of European Consumer Staples at Barclays. I'm delighted to be with Fernando today.

Fernando, I think it's about a year since we sat down together. It feels like an eternity, given the volatility in geopolitics. I'm sure the ceasefire last night will be welcome. It's also been equally busy for you, with the Magnum spin completed and the McCormick Foods proposal. What I want to try to do today is split our conversation into three parts: first, to better understand the proposed transaction; second, to cover some of the technical details, because it's quite a complex deal; and third, to get a little behind your longer-term vision for Unilever as a pure-play HPC company.

So, with that, I'm going to go straight into it. Fernando, I've been covering Unilever for a long time. In fact, I was there when Unilever bought Best Foods back in 2000. I remember the $25 billion deal that brought in Hellmann's and Knorr. Two and a half decades later, we are going full circle with the exit of Foods. You've just done the Magnum disposal, and there is massive volatility in geopolitics. So, can I start with the elephant in the room and ask: why now?

Fernando Fernandez

First of all, thank you for having me. With so many things happening in the last year, we are focused on what we can control. I'm really satisfied that we have improved the fundamentals of the business when it comes to product innovation, consumer engagement and execution. That has resulted in better performance, both in our Foods business and in our HPC business, as you know.

So I think we are announcing this transaction from a position of strength. That is very important for us. This is not a transaction defined by the need to produce a turnaround. This is a transaction that is absolutely aligned with the strategic path Unilever is on. And I am glad that the question is changing from 'why not?' to 'why now?' because the question I used to receive more often was 'why not?'

This transaction originated from an inbound proposal from one of the companies we respect most in Foods, a company that has significant complementarity with our Foods portfolio. We have struck a deal that we believe reflects an attractive valuation. It basically allows us to separate Foods at multiples that are similar to Unilever multiples and to the multiples of the highest-valued food businesses that are listed.

Fundamentally, this is what I call a growth-led separation of Foods. Warren, you know that I am obsessed with volume growth as a key metric, and this is fundamentally about improving the volume-growth potential of both the HPC pure play that Unilever will be and the combined McCormick-Unilever Foods business. I really believe that is absolutely possible.

In the case of HPC, we are creating a Unilever that is much simpler, with a clear category set-up in categories that share a fast innovation cycle and a shared set of capabilities. These are categories in which we have already been performing. This is not about turning around the business. If you look at our HPC business over the last three years, our compound annual growth rate was 5.4% and our volume growth was 2.5%, which is clearly above the market.

When it comes to Foods, we are combining two businesses to create a new McCormick with $20 billion in revenue, in a very focused way, with clear leadership positions across herbs and spices, stock cubes, mayonnaise, mustard and hot sauces, across both retail and food service, and across developed and emerging markets. So, we really believe that we are building two very focused businesses with significant growth potential, clearly superior to what this sector has today.

Warren Ackerman

But the market reception has not been the best. I think your shares are down 9%. Some investors are questioning the value creation. Some have said to me that a clean break would be better. Others are worried about owning shares in McCormick, a company they maybe do not know very well, and one that is going to be quite highly levered. So what can you say to reassure those investors that this is the right deal at the right time?

Fernando Fernandez

I never blame markets. Markets are imperfect in the short term, but in the long term they reward companies with good fundamentals and consistent delivery. What I have to do, and what Unilever has to do, is ensure that we deliver consistently over time.

As for the deal, I think McCormick is a very special foods company. I know European investors do not know the company very well, and I think both the McCormick team and the Unilever team have a role to play in explaining what McCormick is. It is a clear leader in a very focused vertical – flavour – which is one of the few verticals in Foods that sees GLP-1 as a structural tailwind rather than a headwind, and one that is not exposed to growing private-label presence.

It is a company with a history of acquiring brands, integrating them properly and growing them. Probably the best example is the acquisition of the Reckitt Benckiser food brands, where they did an excellent job. On leverage, the new McCormick will be a $20 billion business with gross margin in the mid-40s and a starting operating margin of 21%. Deleveraging from four times to three times in two to three years is absolutely within reach, without compromising the heavy investment behind the brands that both Unilever Foods and McCormick have made in recent years, and without compromising what has historically been a very attractive dividend payout.

Warren Ackerman

Maybe staying with McCormick for a moment: food-company valuations are under pressure. You have touched on it already, but why is McCormick different from other U.S. food companies, and why is Unilever the right partner for the business? I'm trying to understand the upside for Unilever shareholders when they eventually become McCormick shareholders.

The food industry is full of companies with poor growth exposure, underinvested brands and structural headwinds. McCormick is different, and the combination of McCormick and Unilever Foods will be different, because flavour is one of the few verticals where there is structural growth. Higher protein consumption correlates strongly with flavour growth: as protein consumption goes up, it has to be flavoured. Flavour and condiments are categories that are growing across all generations, particularly with Gen Z.

The first distinctive point about McCormick is that it plays in a category vertical that is seriously attractive and superior to most of the food industry. It is a very focused company. At $20 billion in revenue, it will be one of the top five food companies in the consumer goods sector. It will have a gross-margin profile that I used to call 'edible personal care' when I was talking about Unilever Foods – and that is a common feature with McCormick.

If you look at the combined Unilever Foods and McCormick business, it grew 2.4% last year. There are definite cost synergies, which we have estimated at $600 million, and there are potential revenue synergies that are sizeable. There is also a gross-margin structure that allows significant investment behind the brands to accelerate growth.

What are the potential revenue synergies we see? Think about expanding the McCormick brand using the international infrastructure of Unilever Foods. Think about expanding Hellmann's front-of-house in the U.S. using McCormick Food Service. Think about McCormick's product range supporting Knorr's expansion into food service internationally. Think about the geographic expansion potential for brands like Cholula and Maille, which are perfectly positioned in the premium food space.

So we see significant revenue-growth potential. For me, the algorithm McCormick has established – 3% to 5% top-line growth with 23% to 25% operating margin – is absolutely reachable in three to five years' time. If Unilever shareholders decide to keep owning that business, it will create a lot of value for them.

It is also important to highlight that we are not giving Unilever shareholders more exposure to Foods; we are giving them better exposure to Foods. We are making our Foods brands part of a new company in which they will be an absolute priority. We are giving shareholders optionality: they can continue owning Foods, reduce their exposure to Foods if they want, or eliminate their exposure to Foods if they want. That is very different from the current situation, where Foods is part of Unilever and they do not have that choice. And finally, we are giving them an HPC business that is outperforming the market, while trading at a 20% to 25% discount versus peers. So I see upside there as well.

Warren Ackerman

But in terms of margins, are you giving them a business that is already well invested? If I look at Foods margins over the last couple of years, they have moved up sharply to 22.5%. Is there still growth potential from that level?

Fernando Fernandez

Unilever Foods brand and marketing investment is 10% of revenue. I do not believe there is a single company in the sector investing at that level. And if you look at McCormick's retail business, I believe brand and marketing investment is around 8%. So you are talking about a combined 9% to 9.5% brand and marketing investment. Probably the largest food company in the world is struggling to get to 9%.

Warren Ackerman

Yes, I think the average is about 5%.

Fernando Fernandez

Exactly. If you compare the new McCormick with the broader American food sector, the level of brand investment is about twice as high. These are brands with momentum. These are businesses that have been investing significantly behind their brands and gaining competitiveness. This is not a match built from a position of weakness; it is a match built from a position of strength.

Warren Ackerman

You have said there are no dis-synergies, and that separating Foods and HPC leaves only €400 million to €500 million of stranded overheads, which was lower than I expected. Can you explain why? Some people think you would lose more scale, because Foods is effectively a quarter of your business.

Fernando Fernandez

Let me start by stating the obvious: the revenue and cost synergies between McCormick and Unilever Foods are higher than the revenue and cost synergies between Unilever Foods and Unilever HPC. That has complete industry logic.

On scale, the remaining Unilever business will still be very large: €8 billion in the U.S., €6 billion in Europe, €6 billion in Latin America, €7 billion in India and €12 billion in Asia excluding India, plus Africa. That is the size of many global HPC companies. So this business does not have a scale issue.

Do I expect to sell less Dove in the U.S. because we separated Hellmann's? Less Sunsilk in the Philippines because we separated Knorr? Less OMO in Brazil because we separated Hellmann's? Definitely not. So we do not see any revenue dis-synergies here.

When it comes to stranded costs, it is true that we have identified around €400 million to €500 million. I understand why you expected more, but you also have to understand that when we separated Ice Cream, separation of Foods was already part of our strategic thinking, and we did some of the heavy lifting then. Foods is now a business where close to 80% of revenue is run as a standalone organisation. Our food service business is completely separate. In the top 24 markets in which we operate, Foods has a different salesforce. The manufacturing, regulatory and R&D structure of Foods is completely separate.

So this is a business that is easier to separate than it used to be. Of course, we still have work to do, particularly in the smaller One Unilever markets, but even there many geographies operate through distributor-led models. We believe we have a path to make this separation happen.

The important point about stranded costs is that the separation of Ice Cream was a significant learning experience for us. We know where the pain points are, we know how to attack them early, and we know the governance and guardrails we need. One reason we were able to separate Ice Cream while improving every single line of the P&L – top line, volume growth, margin and structural costs – was that we mitigated stranded costs before they hit the P&L. That is the blueprint we will repeat here.

Warren Ackerman

In terms of timing, one week feels like a long time at the moment, and this deal will take 12 to 15 months to get done. Investors are concerned it will be complex and uncertain, and that there could be restructuring fatigue because you will still own Foods until then. What learnings from the Ice Cream demerger can help you move more quickly?

Fernando Fernandez

Unilever was criticised for many years – and fairly so – for being too complex and too slow. It now seems the issue is that we are becoming simpler and sharper too fast. It is what it is.

We have to go through the regulatory and antitrust processes. That is the main factor affecting timing. We do not see significant antitrust issues because the beauty of the combination of Unilever Foods and McCormick is that there is a lot of complementarity and very limited overlap, which should reduce antitrust issues in most geographies, particularly in Western Europe, where the process tends to be slower.

We have taken a cautious approach and communicated that it will take between 12 and 15 months. Of course, both McCormick and Unilever are interested in making this happen as quickly as possible. When we explain the transaction to investors, nobody challenges the strategic merit or the valuation. Their concern is short-term risk: possible disruption to Unilever's momentum and the scale of integration for McCormick, given that the business is close to two times their size.

We are very conscious of that. The McCormick leadership is conscious of that. Plans are in place. And when Unilever shareholders will own 55% of McCormick, in addition to Unilever's 10% stake, it is our responsibility to support McCormick through that integration. We will do it, and we will do it well.

Warren Ackerman:

What milestones should we look for between now and mid-2027?

Fernando Fernandez

Operationally, we have to separate the Foods business. As I mentioned before, a significant part of the heavy lifting has already been done. We have to carve out the financials for Foods, and we have to go through the regulatory and antitrust processes. As I said, we do not see significant antitrust issues, so we believe the process could be faster, but it is better to plan conservatively.

Warren Ackerman

And the project-management teams are still in place?

Fernando Fernandez

Yes, of course. We have a team now with experience of carving out Ice Cream, and some of them also worked on the Tea and Spreads disposals before that. This is a team with a blueprint, governance and processes in place. We will repeat what we did in Ice Cream. As I have mentioned before, we demonstrated through the Ice Cream separation that we can perform and transform simultaneously, and that is what we will do again.

Warren Ackerman

Let's move to part two and talk about the deal mechanics, because there are a lot of moving pieces. One of the questions coming in is about the €14 billion cash component of the transaction, which was a bit higher than I expected. Can you explain the uses of that cash – in terms of costs, tax and then what is left for share buybacks? Some investors are struggling to understand the two-times net debt-to-EBITDA point and how it all works.

Fernando Fernandez

It is true that this is a cash-and-stock deal, and we will receive $15.7 billion, which is around €14 billion, as you mentioned. There are three fundamental uses of that cash. First, we will reduce debt to two times, which we believe is our medium-term target. Second, we will cover tax and separation costs. Third, after reducing debt and covering tax and separation costs, there will be surplus cash, which we will use to enhance capital returns to shareholders.

We have announced a €6 billion share buyback for the 2026–2029 period. Of course, we receive the cash on day one, while the tax bill does not hit on day one. So you will probably see that our leverage in year one is slightly below two times, which gives us some flexibility. At this stage, I do not want to commit on exactly how we will use that extra flexibility, because the environment is very volatile.

Let me also mention something very important that goes beyond the uses of cash and which I believe has been underappreciated by the market: Unilever's share of the capitalised synergies in McCormick covers the tax and separation costs. That matters because a pure spin would not have given you that, since there would have been no synergies, and a pure spin would also have carried a much higher tax bill. We have structured this in what we believe is an efficient tax structure. It is a Reverse Morris Trust, which makes the transaction tax-free in the U.S. It is not the same in other geographies, but it significantly reduces our tax exposure, particularly given that the Hellmann's IP sits in the U.S.

Warren Ackerman

I'm assuming tax of around €4 billion, based on what you paid for Best Foods and what you are receiving in the deal. As you say, the Reverse Morris Trust shields the U.S. tax, but on non-U.S. tax €4 billion is obviously not insignificant, although the €14 billion cash element is higher, so that offsets it. Can you confirm that this is definitely the most tax-efficient way? If you did a spin or sold the business, how much higher would the tax have been?

Fernando Fernandez

If we had done a spin or a disposal, the tax bill would have been close to two times that. It would have been very sizeable. I will not confirm your specific tax calculation, but what is important is that we will have flexibility, and we are very confident in our ability to deliver the share buyback we have announced.

Warren Ackerman

Can you explain a little about the transitional service agreements, or TSAs? You have them running with Magnum, and now you are going to have them running with McCormick as well. How do they work? What is the time frame? And how much of the €400 million to €500 million of stranded overheads could they offset?

Fernando Fernandez

Transitional service agreements have two fundamental sources of value here. The first is on the McCormick side. As I mentioned before, our responsibility is to help set McCormick up for success in integrating a business that is close to two times its size. So we will provide TSAs across multiple areas, from IT to distribution, probably for a couple of years, until they can integrate the full infrastructure into the enlarged McCormick company.

On our side, TSAs provide transitional headroom. They do not remove stranded costs. Stranded costs have to be removed through restructuring spend, which we estimate at around €500 million over a three-year period, above normal-course restructuring, which we would place at around 0.6% of turnover – the industry norm. TSAs buy us time, and we were very successful in the Ice Cream separation in mitigating stranded costs before they hit the P&L. TSAs played a key role in that.

Warren Ackerman

The other point I want to talk about is cash flow. The Foods business was cash generative, and you are going to lose that cash flow. Can you talk about the ongoing cash-conversion or free-cash-flow profile of the HPC RemainCo? What kind of free cash flow should we expect going forward?

Fernando Fernandez

You should analyse cash flow from a combined perspective, because our shareholders will own Unilever and also a significant chunk of McCormick, so the cash flow from Foods will still be in a place to which they are exposed. But your question is really about the cash-flow profile of the remaining Unilever HPC company.

The Unilever HPC pure play will have a higher growth profile and a starting operating margin of around 19%, where I believe there is more headroom for margin expansion than we had in the past. Add to that a negative working-capital profile of around 9%, and if growth comes in line with what we have delivered over the last few years and what we expect, then cash conversion should be around 100%, as it has been in the past. So it will be a great cash-generating business, with headroom in both top-line growth and margin expansion, and one of the best working-capital structures in the industry.

Warren Ackerman

There is not going to be a shareholder vote on this transaction. Any reason why?

Fernando Fernandez

Unilever is incorporated in the UK and has its primary listing in the UK, so we manage the company under UK listing rules. There were rule changes in 2024. Since then, I think there have been more than 50 similar transactions, and none of them have involved either a mandatory shareholder vote or a voluntary one.

The responsibility for this transaction lies with the Unilever board, and the board took a unanimous decision because it is absolutely aligned with the company's strategic path and because we believe it will create substantial value for shareholders. We will not be an outlier relative to those other transactions. What matters now is that the bar for explaining the deal to shareholders is high. I have spent a lot of time over the last ten days doing that, and I will continue to do so.

Warren Ackerman

Unilever has implemented a hiring freeze, I think, for three months. How should we think about that? Is it a response to the war and higher costs?

Fernando Fernandez

The environment has changed a lot since 27 February. It is an act of responsibility to manage every single line of the P&L and to make pricing the last resort. In a context with this much volatility, if there are cost increases, you have to manage pricing sequentially and make sure you attack every cost line.

At the same time, we are working on this transaction, and one of the key factors in the success of the Ice Cream separation was that we used natural attrition and a hiring freeze as key tools to manage stranded costs before they hit the P&L. Those are the reasons behind the hiring freeze.

Warren Ackerman

I want to move to the third part and talk about the vision of Unilever as a pure-play HPC company. But first, can you explain how you see the FMCG industry changing, why the premium for a quality portfolio is increasing, and why the gap between winners and losers is widening? I do not think everybody is crystal clear on how this portfolio move fits into that strategic context. I've covered this sector for almost 30 years, and I have never seen it moving faster.

Fernando Fernandez

You are absolutely right. The pace of change is incredible, and there is a fundamental shift in what kind of scale matters. In the past, manufacturing scale and distribution scale were very important. Today, I believe that the scale of R&D and the scale of brands matter most.

I am interested in building a portfolio with more tailwinds than headwinds – one that is exposed to the fastest-growing channels, premium segments and high-involvement categories, and where a greater share of the profit pool is concentrated. The era of the average portfolio delivering solid returns is gone.

The way we reach and engage consumers is now very different. Consumers have almost endless visibility of what is on offer. We need to keep elevating our brands, premiumising them, shifting them into channels where there is more growth, and focusing on categories with higher involvement. A pure HPC play increases our exposure to exactly those categories, and also to emerging markets, where there is more headroom for growth. That is how I see this transaction in the context of improving the growth profile of the portfolio.

Warren Ackerman

So there is a new FMCG rulebook: you have to take more risk to get ahead of consumers and categories, and nudging the supertanker no longer works.

Fernando Fernandez

Market making is very important. Being courageous enough to shift your portfolio into areas with more growth is very important. In the past, the difference between winners and losers was relatively small. Now you have segments growing at 15% and others declining at 15%. Increasing your exposure to higher-growth market segments is one of the most important decisions an FMCG leadership team has to make.

Warren Ackerman

Can you pinpoint the financial profile of the new HPC RemainCo in terms of organic growth and margins, and say a little about the mix by category, geography and channel? It is going to look quite different from the old group.

Fernando Fernandez

Let me start with the structure of the business. We will be a 67% Beauty & Wellbeing and Personal Care business. We will have 38% of revenue in our two anchor markets, the U.S. and India. We will be 62% emerging markets. We will have higher exposure to premium segments and greater exposure to e-commerce. All of that is fully consistent with what I have been saying since I became CFO.

In terms of profile, it will be a €39 billion company, with sizeable businesses in every major region, ranging from €6 billion to €12 billion. It will have a 48% gross margin – and remember that in Unilever we include logistics in gross margin, so when you compare that with other companies it is equivalent to around 53% gross margin. We will have a starting operating margin of 19%. Pure-play HPC peers are more in the 21% to 23% range, so we begin this next stage of the journey with more margin-progression headroom than we have had in the past.

Warren Ackerman

Can you explain a little more about the synergies between the HPC categories? I do not think that is always fully appreciated – maybe touching on R&D, go-to-market and how much more growth that can unlock.

Fernando Fernandez

The first point to make about the HPC industry is that it is a set of categories with very fast innovation cycles. That fundamentally defines how you market them, how you innovate, how you reach consumers and how you engage with them. There is a shared set of capabilities that travels across categories, because there is underpinning science and technology that is common to all of them.

When you look at surfactants as a fundamental ingredient in formulations, they move from laundry detergent to dishwash, body wash and shampoo. When you look at the importance of fragrance and anti-malodour ingredients, you see them from deodorants into laundry. When you look at the importance of biotechnology, there is also common science and technology underneath. Manufacturing is similar and is often done in integrated sites. The route to market is highly complementary. So we see one shared set of capabilities.

Very importantly, as you said before, the market is changing and the way consumers engage with brands is changing dramatically. These are all categories where format upgrade and premiumisation are significant drivers of value. They require significant investment, a great deal of content creation, and a very fast innovation cycle. So we see real simplification potential in how the company operates.

Warren Ackerman

Coming back to margins, you said there is a lot of headroom from a 19% starting margin. Can you outline where you see that headroom? Is there any structural reason why the gross margins could not eventually match, or even exceed, some of your HPC peers?

Fernando Fernandez

The most important metric I look at is volume growth, so I am not going to give you a margin target for 2030 or anything like that. What I am saying is that we start with an operating margin of around 19%, while most pure-play HPC companies are in the 21% to 23% range. So yes, we see headroom.

The fundamental drivers of higher operating margin are mix improvement and continued volume growth. As I mentioned before, we have a 48% gross margin, but when you look at the next unit of volume, the contribution margin in this new set-up is close to 60%. So significantly stronger volume growth is one fundamental driver of higher gross margin. The second is better mix: the more we grow in Beauty and Personal Care, the more we grow in premium segments, and the more we roll out some of the powerful brands we have built in North America over the last few years, the more our margin will improve.

Warren Ackerman

Home Care is a bit different from Beauty & Wellbeing and Personal Care. It has a different geographical footprint and a different margin structure. How do you see the future for that division?

Fernando Fernandez

There is a clear correlation between format upgrade in Home Care and margin expansion. If your business is fundamentally laundry bars, margins tend to be low. Powders are higher. Liquids are higher still. Unit-dose formats are higher again. Our Home Care business is a very strong leader in emerging markets, and in those markets we continue to see significant headroom for format upgrade. That should support meaningful margin improvement over time.

A third important point is that, in absolute terms, probably the biggest revenue-growth opportunity Unilever has is laundry in India. Laundry market revenue per capita in India is around $4. In the Philippines, Thailand and Brazil it is between $8 and $10. Washing-machine penetration in India is 35%, versus 80% to 90% in Brazil, the Philippines and Thailand. This is probably one of our biggest opportunities at the geography-category-cell level, and if we deliver against it, the impact on Home Care margins will be very significant.

Warren Ackerman

Once the deal completes, you will be left with ten category verticals, from hair care and skincare to deodorants and fabric care. It reminds me a little of P&G a decade ago, when it doubled down on everyday categories where superiority drives repeat purchase and market share. These ten verticals have grown market volume at 2% in the last three years. How can you really leverage those ten, and what is your long-term vision?

Fernando Fernandez

That is absolutely true: market-volume growth in these ten verticals has been 2%. That means our ambition of more than 2% volume growth is realistic. It is also important to say that with ten verticals we are probably one of the more focused pure-play HPC companies, and that matters because focus lets you allocate talent and value better.

I am interested in building a portfolio in categories where science matters, because science creates a meaningful barrier versus local competitors in value segments, especially for a company like Unilever with a strong emerging-markets footprint. I have mentioned before that Wonder Wash in laundry is a very good example. Why do I love Wonder Wash, which is now close to €300 million in sales? Because washing in 15 minutes is much harder than washing in two hours. In a two-hour cycle, the machine does a lot of the heavy lifting. In a 15-minute cycle, the science has to do the heavy lifting.

We are rolling out Wonder Wash in every market around the globe, and everywhere it is proving successful. That success is based on patented technology, on a clearly superior product, and on improved aesthetics, sensorials and a model of consumer reach and engagement supported by what we call 'said by others' and 'young-spirited' brands. That SASSY model is behind Wonder Wash, and I think we can deploy it across all ten verticals.

Warren Ackerman

You have said that desire at scale is working and is differentiated. Wonder Wash is a great example. What other proof points do you have, and how transferable is that skill set across the full portfolio?

Fernando Fernandez

It is helpful to look at the aggregate level. The new Unilever HPC pure play will have 25 brands representing close to 80% of revenue – almost €30 billion. Those 25 brands have grown at a 7% compound annual growth rate over the last three years, with 4% volume growth. So things are working in many of our brands.

Of course there are some usual suspects that I often mention. Dove is a €7 billion brand that has been growing 7% to 8% for us over the last few years. It is one of our blueprints for repeatability. Vaseline took us 153 years to reach €1 billion, but in the last three years we added close to €500 million of revenue, with volume growth close to 12% in the last couple of years. So there are brands where I believe we have built the SASSY model better than in others.

I am always focused on accelerating the winners fast. We have six, seven or eight brands with great momentum right now. Desire at scale is a clear marketing philosophy for the company, and SASSY brands is a framework that has united the company around what matters: science, better aesthetics, better packaging, stronger presentation, stronger visibility, stronger sensorials, recommendations by other people, and keeping brands contemporary. I really believe the old model of broadcasting messages from brands is gone. It is very important to ensure that brands stay current and feel like brands of today, not brands of the past.

Warren Ackerman

Some investors think you are trying to create a mini L'Oréal. I think about it more as the L'Oréal of health and wellbeing. Can you outline why Unilever is distinctive, and explain your vision for Prestige Beauty and the health-and-wellbeing strategy?

Fernando Fernandez

There are several companies I admire. You have mentioned two of them in the last five minutes, and I have no problem saying that. But we have our own path. We have a broad-based portfolio with good category exposure, which gives us resilience – from more volume-led categories such as Home Care, where premiumisation and format upgrade matter, through to very high-involvement categories such as Prestige Beauty and Wellbeing.

What really distinguishes us is our presence in emerging markets, which we like because it gives us stronger exposure to volume growth. When you look at emerging markets, you see faster population growth, a rising number of households, a significant increase in female labour-force participation and much more headroom for wealth expansion. All of that drives volume growth, mix and premiumisation opportunities. We like that, and I believe this is a distinctive feature we have accentuated through this portfolio change.

It is also important because people often look at emerging markets through the lens of the past. Managing emerging markets is not easy, but how many countries in emerging markets now have inflation above 10%? You can count them on your fingers. That is very different from the past. Just look at what has happened in the last month or so: currencies in emerging markets have held up relatively well, whereas 20 years ago this kind of situation would have hit them hard. So I believe emerging markets are much more solid than they used to be, and their underlying growth fundamentals are better.

Warren Ackerman

That emerging-markets weighting is going to be a very distinctive feature. Asia plus Africa goes from 44% to 48%, and emerging markets overall go to 62%. That is very different from any other FMCG player. Maybe in the short term it is a headwind, but in the long term, given what you just said, it could be a big tailwind. How do you see it? And does it make hard-currency earnings harder to manage, simply because EM is a larger share of the group?

Fernando Fernandez

I think the fundamentals of emerging-market economies have improved. You can never predict currencies perfectly, but if I compare the fundamentals of the past with those of today, I believe currencies should be more stable over the long run than they have been historically.

As I mentioned before, we have faster population growth, more households, more female labour-force participation and greater wealth-expansion opportunities. All of that matters in the categories in which we compete. There are significant format-upgrade opportunities and significant premiumisation opportunities, and that should support the probability of Unilever delivering more than 2% volume growth.

It is also important to highlight the 38% exposure to the U.S. and India. The U.S. has delivered 4% volume growth for us over the last four years. I cannot promise that forever, but do I believe we have a portfolio footprint in the U.S. that can deliver around 3%? Yes, I do. India is an economy growing at 6%, 7% or 8%, so thinking of India delivering 5% volume growth is also within reach. Put those together and you already have a very strong base for the group growth algorithm.

Warren Ackerman

Following up on India: Priya is now running the Indian business. Can you outline what her priorities are, where things stand and how you see the portfolio progressing, particularly around premiumisation?

Fernando Fernandez

Priya's number-one priority in India is to ensure that the portfolio is future fit. The portfolio that has brought us to today's extraordinary leadership position remains a huge strength. We have 55% share in hair care, 45% share in laundry, 80% share in dishwash and 80% share in lifestyle nutrition, and I could keep going. In most categories we are three to five times the size of our closest competitor.

we have an incredible portfolio in India, an incredible distribution system, highly efficient production costs, and excellent access to talent. The fundamental challenge for Priya is to ensure that the portfolio is future fit and that execution is flawless, as it has been in the past. I think we lost our way a little for a couple of years, but we are improving now. I am very bullish on India and on the contribution it can make to Unilever's overall growth algorithm. Having 16% to 17% of your business in India is a long-term competitive advantage.

Warren Ackerman

I want to come back to the SASSY marketing model. A year ago, I remember you saying you wanted an influencer in every ZIP code in India and Brazil. That really stuck in my head. A year on, can you update us on where that stands, and whether there are specific examples where it has made a big difference? I am also thinking about it in the context of the upcoming FIFA World Cup, where Unilever is, I think, a major sponsor for the first time.

Fernando Fernandez

Influencers are just one way of simplifying what I call other people's recommendations. Some of them are influencers, some are professionals who recommend our brands. We now have close to 300,000 people recommending our brands. Two years ago, we had around 10,000. We have 17,000 recommending Dove in the U.S., around 22,000 for Liquid I.V. in the U.S., and 17,000 in India, and I could keep going.

So this has been a significant change in the infrastructure behind our model of consumer reach and engagement. Has the efficiency of that investment peaked? Definitely not. We have increased the level of investment, but there is still a lot to do to maximise the return on that spending. One of the things I am most interested in now is understanding the variables that affect return on investment in a model like this, because those variables change every day.

There will be even more change as large language models become a bigger part of search in the future. But overall, while I am never fully satisfied, I am satisfied with the progress we have made in this space. The improvement in our performance reflects both significantly higher investment and better investment. Four years ago, we were investing 13.1% of revenue in brand and marketing investment. I called that 'consciously uncompetitive'. Now we are at 16.1%, and when you remove Foods that rises to 18%. We are investing competitively now, but we are also investing better – in models of consumer engagement that belong to today, not to the past.

Warren Ackerman

And in terms of the World Cup, how are you activating that?

Fernando Fernandez

It is huge. I really believe event marketing will be very important in the future. There are two areas where we are investing more, beyond other people's recommendations. One is in-store visibility. In a world where media fragmentation is high, the importance of the store becomes greater. If you look at the Advantage Survey in the U.S. last year, it ranked us number two overall, number one in Foods, number one in Personal Care and number three in Beauty. So investment in store is very important.

The other is events. FIFA this year is a very important event for us. It is the first time we will do something on this scale. It matters because sport is linked with movement, and movement is closely connected to categories such as skin cleansing and deodorants, which are very important to us. We are very excited, and we believe it will be a key driver of growth this year.

Warren Ackerman

Looking forward on capital allocation, you have been very clear that there will be no transformational acquisitions. Can you elaborate on that? There is a lot of consolidation going on. Every day there seems to be more news of something happening. Why do you think your bolt-on strategy is a better use of capital?

Fernando Fernandez

There are very few transactions that genuinely improve a company's growth profile. What excites me about this transaction with McCormick is that I believe it increases the volume-growth potential of both the Unilever Foods business and the McCormick foods business. Do I see similar opportunities in HPC? I do not. This is not a transaction designed to create flexibility for another major deal.

Our capital-allocation priorities remain the same. We will invest for organic growth and productivity. We will maintain a dividend payout ratio of around 60% in the HPC pure-play business. We will pursue bolt-on acquisitions in areas we like – Beauty & Wellbeing, Personal Care, the U.S. and India, premium segments, and areas with strong e-commerce exposure. If there is surplus capital, of course we will return it to shareholders.

So there is no change in our capital-allocation priorities. Some people ask whether we are thinking about doing something in consumer health or anything similar. We are not. We are focused on growing our business organically and on progressively shifting our portfolio into areas of superior growth through targeted bolt-on acquisitions focused on the U.S., India, Beauty & Wellbeing and Personal Care.

Warren Ackerman

On the health-and-wellbeing part of the portfolio: it is clearly high growth, but it has slowed a little recently and remains quite narrow. How are you thinking about broadening it?

Fernando Fernandez

That narrowness is actually part of the attraction. I would rather have strong leadership positions in narrow verticals than weak positions in broader ones. I like having more than 40% share in powdered hydration. I like having close to 80% share in hair-fall supplements with Nutrafol. I like the exposure that Olly has in areas such as sleep.

We will continue looking at assets in that space, but they need to be in super-growth segments, clearly defined, in narrow verticals where we can build leadership positions. They also need strong digital and e-commerce exposure, and they need to be easy to roll out globally.

One reason we are making these investments in the U.S. is that the U.S. is the only market that gives you both critical mass and brands that can travel internationally. That makes it strategically important for Unilever as we build a new leg of the portfolio that can scale globally in premium segments.

Warren Ackerman

There has been a lot of focus on Liquid I.V. and Nutrafol, for obvious reasons. But you now also have K18 and Dr Squatch. How are you feeling about those two?

Fernando Fernandez

We are excited. K18 is having a great run. Dr Squatch is not yet counted in our underlying sales growth, but it is already a business of more than $500 million, growing at a double-digit rate. It is exciting because it is highly complementary, from a positioning perspective, to our other brands in skin cleansing and deodorants. It is a male-grooming brand that I believe has a lot of international potential as well.

You asked earlier about Prestige Beauty. We see Prestige Beauty as a natural extension of our skincare and haircare strategy into higher price points. It gives us exposure to price tiers where we can deploy our best science. We have some fabulous brands there – Dermalogica, Hourglass, Murad, Tatcha and others. There is a lot of growth headroom.

The portfolio is still quite U.S.-weighted. Is there more room to internationalise? Of course. And you can blame me for that, because when China slowed down we made a conscious decision to fortify our U.S. position. When China slowed, many companies were always going to push harder into the U.S. and discover India. So we chose not to move too fast on the global rollout of these brands. But I believe now is the time. We now have a strong portfolio and real critical mass – Liquid I.V. is close to $1 billion and Nutrafol is close to the same in the U.S. – so I believe the brands are ready.

Warren Ackerman

How do you think about those brands in the context of China? Previously, China felt like a market where Unilever was trying to be all things to all people. Now the strategy seems more selective. Olly has done well there. Is there now more scope to take some of these brands into China, or do you still need to be selective?

Fernando Fernandez

Selective growth is our strategic approach to China. Again, I want to be narrow there. We have five brands in China where we are investing significantly – Dove, Vaseline, Olly, OMO and one or two others – and of course we need to be a premium portfolio there. There is always a timing question: it is too late to be early in China for us, but too early to be late. Both things are true.

China remains a very important market. We have improved our operations there significantly and expect good performance this year. But it does not have the same strategic importance for us that India has, even though both have populations of around 1.4 billion.

Warren Ackerman

Conscious of time, let me start wrapping up. Going back to the McCormick deal, some have argued that it is not compelling value for Unilever shareholders, or that it was simply the least-bad option. You have made a lot of points today, but how would you push back on that in one or two sentences?

Fernando Fernandez

This deal is about unlocking volume growth. It unlocks volume growth in Foods because our Foods brands will become an absolute priority within McCormick, in a company with meaningful revenue and cost synergies. It unlocks volume growth in HPC because we will have a simpler business, with well-defined categories and one shared set of capabilities, in a business that is already outperforming the market while trading at a valuation discount of around 20% to 25% versus peers.

We are probably now in the top third or even top quartile for performance when it comes to top-line growth, but in the bottom quartile on valuation. I see upside in that. I would rather not be bottom quartile in performance and top quartile in valuation. I believe this transaction will unlock a lot of value for our shareholders over the long run.

Coming back to Foods, we are not increasing shareholders' exposure to Foods; we are improving the quality of that exposure. We are giving them optionality. We are creating proven cost synergies and, we believe, sizeable revenue synergies. And the healthy margin profile of the combined business should enable significant investment behind the brands.

Warren Ackerman

You mentioned valuation. Obviously that is more the market's job than your job, but there is a big disconnect. Is there frustration that you are delivering top-line growth while the valuation is not reflecting it? What do you think is being misunderstood, and what is the unlock?

Fernando Fernandez

As I said before, I never blame markets. They are imperfect in the short term, but in the long term they tend to reward companies with good fundamentals that deliver consistently. Unilever's main issue is that it has not delivered consistently enough. We have had a couple of good years, but this is about quarter in, quarter out.

I am absolutely obsessed with ensuring that this company gets onto a consistent path of more than 2% volume growth. That should lead to consistent earnings growth in hard currency over time. If we deliver that, the valuation discount will disappear over time. We focus on what we can control, and what we can control is making Unilever better every single day.

Warren Ackerman

Final question, Fernando. If you had to sum up Unilever in three words, what would they be?

Fernando Fernandez

Sharper. Forward-looking. Competitive.

Warren Ackerman

Super. Thank you, Fernando.

Fernando Fernandez

Thank you.