

Kraft Heinz has boxed Unilever in. To survive it must come out fighting.

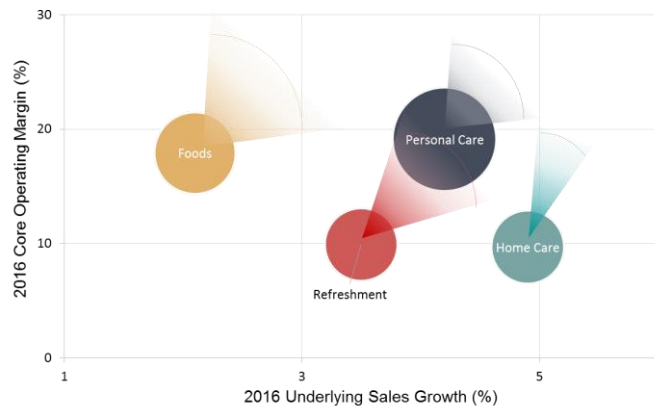
Here's how: *SELL FOODS AND REFRESHMENT, BULK UP AND UPSCALE PERSONAL CARE AND HOME CARE*

1 UNILEVER UNDER THREAT

Unilever is a set of disparate businesses that carry a conglomerate discount

Margins overall and across its four categories are low, and mostly lag better performing peers

2016 PERFORMANCE VERSUS FRONTIERS OF EXCELLENCE



Frontier of performance excellence

KHC's bid highlighted this poor performance and forced a chastened Unilever into a humiliating review

Radical change is a given, but what should it do?

2 BUILDING A WARCHEST

Beyond obvious and immediate actions – such as deeper cost cutting, boosting advertising for quick sales, returning cash to shareholders – Unilever must decide where its future lies

We believe it should bulk up to break up and return to its core PC and HC heritage, but bigger and stronger



Spreads are already rumored to be on offer (\$8 billion) and other smaller brands will likely follow

But it must cede more ground to fight. Its food business is the wrong side of deep trends and it should prepare it for sale. KHC and others want Unilever's international footprint and will pay a premium

Refreshment too should go. With R&R, private equity has shown an appetite for ice cream and Unilever should exit before cost cutting gets too painful

It should cut further, focusing on just those global brands it can brilliantly manage – Axe, Dove, Omo, and others – and divest the rest

These actions and some new debt will give it a \$100 plus billion war chest. What should it do with it?

3 BULK UP TO UNILEVER 2020

Unilever should then bulk up and add winners to its portfolio

In Personal Care, targets should be Colgate-Palmolive (for the Colgate brand) and Beiersdorf's Consumer unit (for NIVEA)

In Home Care, RB's prospective acquisition of Mead Johnson Nutrition might make it more amenable to exiting its struggling and increasingly non-core Home business (Vanish, Dettol, Harpic...)

Church & Dwight (Arm & Hammer, OxiClean...) and Henkel (Schwarzkopf, Dial, Persil...) span both categories



Future Unilever
A Personal Care and Home Care powerhouse, but with some strong Beauty and Health assets aligned with trends

And in a twist, it should take a leaf from L'Oréal's book and buy niche premium brands bang on trend. Unilever is already dabbling with prestige in skin and hair care, an area ripe for strong growth. It should also look for therapeutic beauty brands delivering health benefits. It missed out on CeraVe but Johnson & Johnson's Consumer unit and its skin care brands like Neutrogena and Aveeno would work; under pressure from shareholders to split, J&J might just accept an offer

Unilever announces the results of its review in April

We'll be back with more thoughts!