

CONVERSATIONS WITH MIKE MILKEN



Alan Jope
CEO, Unilever

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Mike Milken: Alan, Thank you for joining us today.

Alan Jope: Thanks Mike. It's an honor and a pleasure to be with you.

When I think of Unilever, I think of a company that markets and sells hundreds of products and brands, everything from personal care to cleaning agents, to energy drinks, to ice cream. More than 30 percent of everyone on this planet is using some of your products in almost 200 countries every day. And more than 150,000 employees, and working with an additional 3 million workers through corporate partnerships. How has this coronavirus changed how you've operated over the last six months?

Thanks for that generous introduction, Mike. To be honest, when the coronavirus kicked off, we followed our instincts. Like many businesses we were initially to put our people's well-being front and center. So stepping up safety precautions having people work from home. But going beyond that, we have 60,000 workers and their dependents on some of our agricultural sites in Africa. We actually had to start building hospitals there. We converted a lot of buildings. We shipped out ICU equipment, we acquired ventilators, we acquired testing capabilities and moved those into some parts of the world where we felt public health systems were not going to stand up. That served us very well. We immediately donated a couple of hundred million euros worth of products and services.

We really for about a decade have believed that if we look after our people, serve our consumers and customers; treat our other business partners with respect; if we attend to the societies that we do business, and then look after the planet and the climate crisis,

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then our shareholders will be better rewarded. It was really post rationalized that we realized that was exactly the model that we'd followed in dealing with the crisis. But I think about to leave one headline with you, it starts and ends with taking care of our employees who have been quite impacted.

Alan, beginning in the 1980s and nineties, we began to use this phrase that ‘the pharmacy of the 21st century will be found in the grocery store.’ As science has propelled ourselves forward, we now know what you eat, what you drink, you can begin to change your microbiome in only seven days. So you can't change your genes today – in the future CRISPR technology will solve

that issue – but only 20 to 30 percent of disease is affected by heredity. The rest is your lifestyle. I know you went to the University of Edinburgh and you went in business, but you didn't know you're going to be prepared to actually run a 21st century pharmaceutical company called Unilever. Tell us a little bit about your background.

I did go to university and ended up studying business. I had originally intended to study medicine, and I was accepted to study medicine, and it was a last-minute change actually when I decided I didn't really want to be a general practitioner or a doctor. The products that we sell today have extraordinarily high technological component. You mentioned the human microbiome; it's well-documented how the bugs in your gut have an impact on your overall health. But if you think about it, even our personal care products, the condition of your hair, is very dependent on the bugs on your scalp. The condition of your skin is extremely dependent on the makeup of the microflora on the skin. And so the human microbiome, in and on the body, is central to our product development. In that other great trend of our times of personalization, we believe that there's really going to be two ways into personalization. One is the human microbiome and the other is epigenetics because although you're right at the moment we can't change our DNA, but we can influence how our DNA expresses itself. The type of products and the R&D that we're doing is very much focused in these areas. So, yes I agree. The supermarket aisle and the drug store aisle is definitely the pharmacy of the 21st century.

I want to acknowledge first the incredible work that the Milken Institute's doing; the contributions you're making to well-being globally is remarkable. If Unilever could make a small contribution of a similar nature we would be very happy with that. I grew up in a very humble family background on the west coast of Scotland; joined Unilever straight out of college. And yes, I spent 14 years in North America. It's been the great privilege of our lives is to live and work and these other cultures. As we look to the future, we do see several trends in the world that drop out of the importance of health and well-being.

In the face of coronavirus, we're seeing an absolute preoccupation amongst consumers with health and well-being. I think if there's a positive aspect of coronavirus, it is that people are going to be more conscious of their own health and their well-being and steps that they can take to look after that. We're seeing a lot of behavior that's rooted in fear; people see the home as the new place to cocoon safely away from the hazards and risks in the world. We're seeing a preoccupation with hygiene. Some parts of our business are being devastated by the impact of this coronavirus, but other parts such as hand hygiene, surface hygiene, bleaches, products like that are obviously doing real well. And we're seeing a shift towards e-everything. Digital is shaping how we shop, how we buy, how we pay, the media we're consuming. My journey to live and work in many different parts of the world, which has been a great privilege, has in a way prepared me for the type of rapid change that we're seeing in societies around the world today.

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Having a direct relationship with the consumer digitally tells you a lot about what they're interested in, how they respond. Let's go and talk about the mission of Unilever. From when you arrived 35 years ago, has the mission changed?

The company was founded back in the 1870s by a guy called William Lever. At the time, he described the purpose of the firm and I quote as “to make cleanliness commonplace, and lessen the load for women.” So back the end of the 19th century this guy was a feminist. Today we describe the mission of the firm as being to make sustainable living commonplace. And we believe that if we imbue our brands with a sense of purpose, if we conduct our operations in a way that is purposeful where we pay attention to our impact on society and on the planet, then the owners of our company, our shareholders will be preferentially rewarded. In that regard, how we express the mission of the firm around sustainability has certainly changed.

A number of years ago, we formed at the Milken Institute, our Global Capital Markets Advisory Council, organizations that have their own funds to invest. So they could have been large family offices, endowments, pension funds, foundations, insurance companies, and today sovereign wealth funds. They have around \$25 trillion in assets. And this group of organizations, between 325 and 350, as we've seen it evolve over the last 10 years have definitely focused on a word you just used –sustainability. So the ESG movement and the co-chairman of this organization was Chris Ailman, head of CalSTERS in the United States, the second-largest pension fund, and Hiro Mizuno who was running the world's largest pension fund in Japan and is now a senior fellow in the Milken Institute. And we could see this focus that they had as long-term investors with their own capital focused on ESG. Take us to your own interaction with this ESG efforts.

We're dealing right now with at least five simultaneous crises piled on top of each other. We got a biological crisis with a virus that's killing people 5,000 a day at the moment. We've got a social crisis being caused by people being locked down and it's creating dramatic unintended consequences on even things like mental well-being. We've got a looming economic crisis that I think frankly, the market has not yet spotted. We've got a racial justice crisis. On top of that, we've got a climate crisis that is coming at us like a freight train.

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And, I think the idea of carrying on with our [Milton] Friedman model of capitalism is not sustainable. Capitalism 2.0 is needed. We believe it has certain characteristics. We believe that the next evolution of capitalism will be a multi-stakeholder model. We believe that the next evolution of capitalism will require disclosure in a consistent and usable

way on non-financial metrics. We believe that the next model of capitalism will require that we price externalities such as our carbon emissions. And we believe that the next generation of capitalism will be a circular model.

Now, if you take these things and think about it caring for the environment, caring for the impact that you have on a society, if you think about businesses that are run with good multi-stakeholder governance, that's your E, your S, and your G. I still consider myself quite a rookie chief exec. I've only been in the role for a year-and-a-half, but even in a year-and-a-half I've noticed that our engagement with investors has gone from having a separate person in the corner of the room who didn't usually say too much, who was introduced at the beginning as 'this is our ESG expert,' to now the portfolio managers themselves and the risk managers and the chief investment officers asking a

lot of questions about how Unilever conducts itself from an environmental and from a social perspective. We think that's the firm of the future.

Doing good is good business. At the end of the sixties I gave my very first speech on Wall Street that the best investor was a social scientist. So in many ways you're speaking to us today as a social scientist. Those companies that are perceived as benefiting the environment get valued differently. Those companies where they're the best places to work, get perceived differently. More and more today, employees want to know what does the company stand for, and am I proud to work for that company? The young people joining Unilever or your partners with millions of partners around the world, do you see them viewing you differently? How do you communicate with them today?

The business case for sustainability is in our view completely proven. Our brands that score higher on social and environmental responsibility are growing much faster, almost twice as fast as the rest of the portfolio. We can show that we've taken more than a billion euros of cost out of the business through sustainable sourcing. Often there's an initial on-cost, but very quickly you save money. It has been an absolute spur for innovation. We think it reduces the risk in the business and increases trust. But you've put your finger on the number one reason why sustainability matters, and that is, it is an absolute magnet for the best young talent today. Around the world, and this is by the way not an issue just in the West, the people who have to live with a degraded environment and dreadful air conditions are the people living in the huge metropolitan areas in the emerging markets; it's the people living in Africa with what's happening to a land and soil quality there.

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It's a truly young people from all around the world care about these issues. Unilever has a graduate recruitment program in 54 countries around the world. Ten years ago we were the employer of choice in 17 of those 54 countries for graduates coming out of college. We're now the employer of choice in 52 out of 54 countries around the world. And it is 100 percent because of our passion and commitment for doing business in a responsible way. People really want to know what the conduct is of the companies behind the brands these days, both as a consumer and as an employer.

As we've pointed out to our individuals working for our foundations and the Institute around the world, we will all be judged years from now about what we've done during this period of time and what role we played in solving the problem.

If I could land one more message, it's that there are things we can do as a corporation, but there's a lot more that we can do as a brand owner. What do I mean by that? The most people and tried with Unilever is not as Unilever, but by buying Dove or by buying Lipton Tea or buying Sunlight washing liquid. Our brands are how we have the biggest impact in society. The reason why Dove can talk about helping with young girls' self-esteem is because we've worked with more than 100 million young people one-to-one on issues around body image and self-esteem. So, brands really have a tremendous power to tackle these issues

If people feel a brand is not representative of this environmental effort, people can quickly turn away from that brand. How are you protecting your brands today and dealing with an explosion of new brands coming to market?

Boy, that's a big question. If you think back over the last 30 or 40 years, big companies and big brands that serve several sources of sustainable competitive advantage, access to capital was one; access to technology, access to distribution chains and route to market. Actually access to meet scale media was a barrier to entry for small brands and the list goes on. They have all gone. All of the traditional barriers to entry have gone. Money is more or less free. You can find good that technology from third parties very easily. The internet has democratized both the route to market and media.

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And yet some or other, the big brands endure. It just shows what a premium there is on trust. I mean, I guess chatting three, four years ago with the stock market, everyone was preoccupied with insurgent brands, small brands coming up and new brands coming along and disrupting the big brands.

I can tell you the healthiest brands in Unilever's portfolio are our biggest and oldest brands, especially, at times of great crisis like we're in right now. People flock to the brands that they know and they trust. However, we need to be preoccupied with how do we earn that trust every day from consumers. And it's going to be through very different things from in the past. So for example, we now have 1.8 billion people, in the Unilever cloud where we have to be super-responsible on how we use that information. The use of data and technology becomes the new ways that you build moats of trust around big brands.

But I guess we're pretty confident that big brands are gonna be around for a long time. The question is whether the companies that sit behind those brands can adjust to the social and technological trends that are going on at the time. It's quite rare actually for, these tiny upstart brands to go on to achieve true scale in the hundreds of millions or billions of dollars of turnover.

As we look forward, we're going to have to decide what kind of world do we want to emerge on the tails of this coronavirus. There are going to be headwinds and there are going to be tailwinds. The biggest tailwind is going to be the voice of young people demanding that the grownups do not ignore warnings about pandemics, about climate change, about gross inequality. One of the headwinds that I'm very concerned about is a retreat to nationalism. We know that trade, global trade, has been tremendously helpful, lifting hundreds of millions of people out of poverty around the world. I can tell you that Unilever's supply chain has proven to be extraordinarily resilient to all the disruptions created by coronavirus. Not because we're nationally sufficient in any one country, but rather because we run a globally interconnected supply chain with multiple points of redundancy. One of the points of redundancy is that we substitute materials all the time. So we know what the end point specification is that we want for a product, but how you get there might involve tweaking and adjusting the formulation in real time, all the time on a continuous basis so that you're able to provide continuity of supply using different pallets of ingredients based on either market pricing or market disruption. At the moment really prize agility much higher than we prize lowest absolute cost.

How have you gone about keeping a direct relationship with your customers so you actually know in a world of technology who your customer is besides saying, 'it's Amazon or Walmart or someone else?'

Any consumer-facing company that's not obsessed with building its own first-party data is giving away the crown jewels. And so whilst the big social media platforms and the big commerce platforms have access to very high-quality consumer information, in the same way that supermarkets have had for years, I can tell you as a brand owner, we are preoccupied with building our own data systems. Water is the new oil and data is the new gold. And we are not going to let that gold slip through our fingers. The extent to which we can collect, harvest and put that information to good use serving our consumers in a responsible way, that might be the single biggest determinant of Unilever's long-term success.

About five or six years ago, one of our medical foundations put out a new periodic table. It wasn't oxygen and helium and magnesium; it was every fruit and vegetable and dirt. Teaching people what this new periodic table looks like, what it is, and understanding by using these ingredients how the world would change. Talk to us a little bit about Unilever as a science company.

Let, let me go from 100,000 feet in geopolitics and big data strategies to 1,000 feet. About 60 percent of the world's calories come from six crops, and those crops are not particularly good if that's all you eat, nor is it good for the land if it is all that you grow. We've taken one of our brands, it's the second-biggest brand in Unilever, it's called Knorr. It's going to range of food products that we make under that brand's name. Their mission, their purpose they define as to reinvent food for humanity. And they've identified 50 foods of the future, fruits, grains, vegetables, which when eaten as part of a balanced diet are not just good for mankind but good for the planet as well. I hope that what we start to see is a food system that moves away from the mass industrialized

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production of just six crops back to respecting true diversity of food, what it can do for your health and well-being, and what it can do for the planet. And Mike, I think of it as anybody who can give testimony to the power of a healthy raw assorted diet is you looking in real good health as you do today.

I'm quite interested in seeing how many of those 50 are on our new periodic table. One other area I'd like to touch on if I could, and

that is plant-based diets. The environmental movement and efforts many times have tried to put forth the idea which we have as a tagline at the Milken Institute, Healthy Human, Healthy Planet, with the idea that not having to grow animals to feed human beings, but being able to replace it with plant-based protein. Do you see this as something that Unilever sees as the future?

There are very few secular trends that you can count as a sure bet, but the shift to plant-based food consumption is an absolute sure bet, it's better for humans, it's better for the environment and it's healthier, it's more sustainable, it's better for the carbon footprint. We've made a huge bet on this. I think what your research has pointed out, and what we are certainly discovering, is that it's no time for dogma. Trying to persuade people to make the switch to an entirely plant-based diet is extremely difficult. It requires people to have some kind of major incidents in their life to make that switch.

But what we're seeing is the explosive growth of flexitarian diets, where people are just dialing down the amount of meat and dialing up the amount of vegetables that they're consuming. You can see that in our most recent acquisition activity. We recently acquired, a small business in Europe called The Vegetarian Butcher. They make products that are, I think, indistinguishable from their meat alternatives. The businesses on fire. If you even look at the fast food chains in the United States, I was talking to one of them who was telling me that their plant-based alternative to a meat burger doesn't just not cannibalize the meat-based products, but it actually drives incremental sales as people who otherwise would have rejected that type of a chain restaurant, are drawn to it. So as best I can make

out, plant-based is good for people, good for the planet and good for the business. It is absolutely essential to our food strategy going forward.

One of the big challenges that we looked at with the coronavirus was food security. Many countries in the world are worried about trade and how they're going to be able to import. If I just took the United States, in 1800 90 percent or more of the people were involved in agriculture in some sense. By 1900, it was down to about 40 percent, but they were not only feeding people in the United States but feeding the world. And today it's less than 2 percent, but every person is feeding 500 to a 1,000. The technology of vertical farming, warehouses where you recycle the water, reducing water usage by 99 percent, power usage with the invention of new lighting techniques, allows you to build and grow fruits or vegetables anywhere in the world where maybe you couldn't have grown them before or maybe the soil had been so compromised it didn't work. Is this a movement that Unilever sees will continue to grow as the plant base, the technology base growing in indoor vertical warehouses?

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I think the short answer is yes, but it's for slightly different reasons. The world is more than capable of growing enough food to feed itself. The problem is that the way food is grown today is creating absolute havoc with land use and water use. As we rip into high-quality savannah land, as we tear down virgin rainforest to make way for grazing pastures, soybean planting, palm-oil plantations; as we spray what will become our most precious resource, water, in an incredibly inefficient way to irrigate these crops, we are contributing to the planetary crisis in the way that we grow food. The real value of vertical farming is the way that it conserves land, it conserves water, and it conserves energy. And that's why we think it will play a critical role going forward. We need to stop thinking about stopping land destruction, but we now need to think about regenerative agriculture where we shift to agricultural practices that allow the regeneration of virgin land because that is the most important contribution to solving the climate crisis alongside reducing carbon emissions. Vertical farming has a big role to play because otherwise we're going to destroy our variability to support life on Earth through our agricultural practices, completely unnecessarily.

Alan, with operations all over the world and billions of people using your product and your own career taking to almost all parts of the planet, you were a man on the go. What has it been like for you to lead your company with a substantial reduction in your travel time?

I've never felt more connected to the women and men in our organization than I feel today. I think the way we have tortured our bodies with business travel for the last 50 years is turning out not to be efficient at all. We are seeing a dramatic acceleration in a move towards a future of work that is highly connected, where the technology creates a much flatter organization. Every Tuesday we have a global town hall where we typically get 10 or 15,000 people dialing in. We understand exactly what is on the collective mind of 15,000 people and we address it in the moment.

None of us understand the long-term effects of these new ways of working, but we see an office of the future that will be a place for collaboration. It will be a place for creativity, it will be a place that creates community, and it will be the center of the

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culture of the organization. But it will not be a place where people go five days a week to sit in cube farms. Our employees are telling us that on, on average, they would like to work two days a week in an office and three days a week somewhere else, either with a customer or at home. Interestingly, that number is a little higher for days preferred to be in the office in the emerging markets, because people don't have such nice homes to work from.

And a little bit lower in the developed markets. I welcome to the day when everybody is using their time in a mix that works for them, where we use technology to connect remotely, and where unproductive commute time become productive time for people to be creative, restore themselves and focus on the real high-value work of thinking and collaborating.

Mike, I'm basically an optimist. I think like you I see the power of technology, the power of invention, the power of people, the power of collaboration, and I hope that coronavirus turns out to be a great accelerator of the future of work such that we don't spend our time excessively sealed in metal tubes going to the office or traveling around the world. I find it very liberating.

Now, what about your own family?

We're very blessed. My wife and I have three kids. This has been a moment to reconnect as a family. Every every cloud has a silver lining, but our family is well. How about you, Mike? Is your family healthy and well?

Our family is healthy and well. They're geographically dispersed, but we have technology to thank so we can see our grandchildren also. Alan, I want to thank you for joining me today, but I particularly want to thank you for your leadership in these trying times and for the role that Unilever plays for billions of people on this planet, and for the direction that the company has had headed in as not only a supplier of numerous products, but a supplier of health and wellness in the future.

Well, Mike, thank you for having me and God bless you, and God bless your institutes for the miraculous life-saving work that they are doing right now. It's an honor to talk to you. Thank you.
