Nestle and Unilever Liquidity Ratio Comparison 2017 to 2018

Posted on August 27, 2021

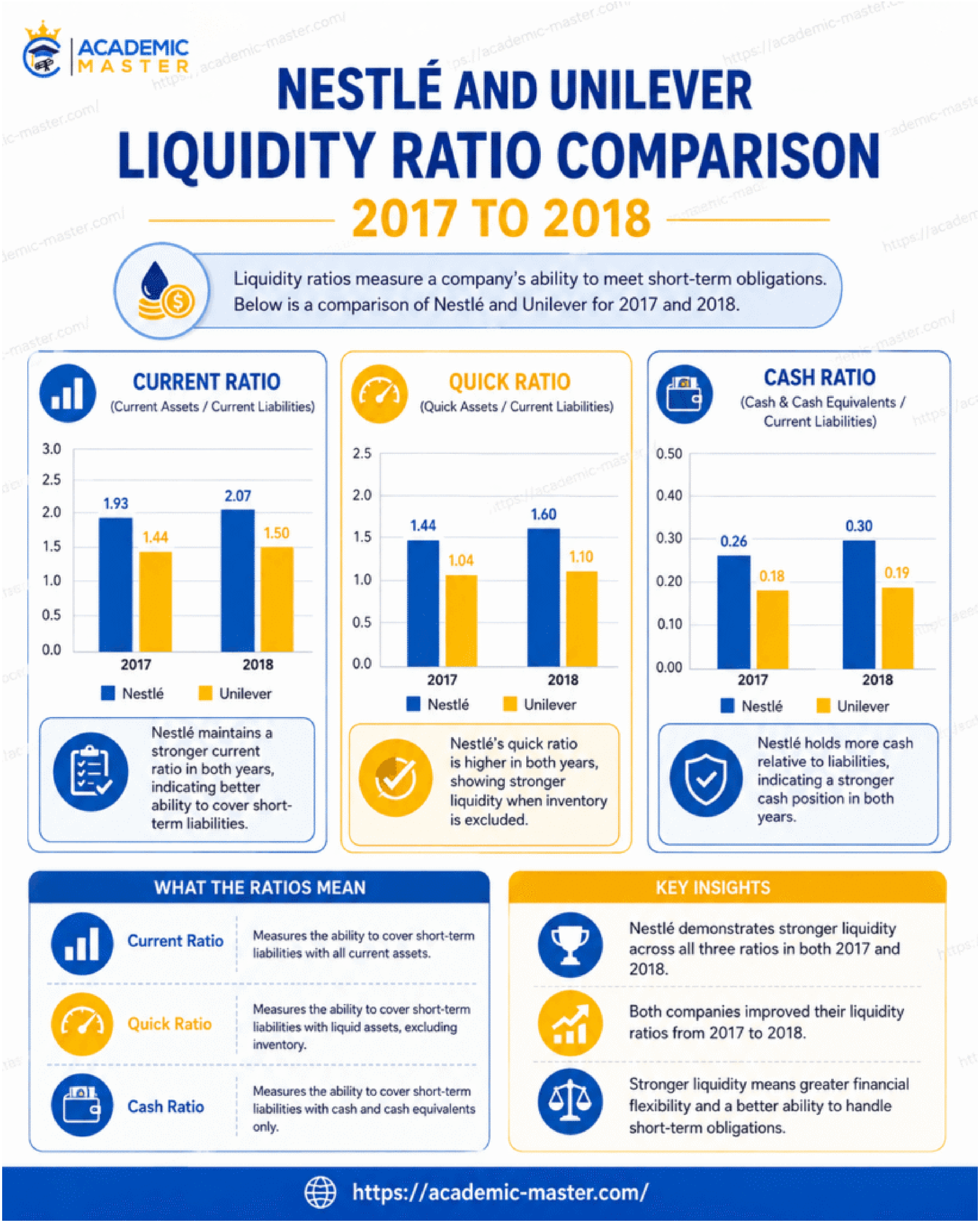
Executive Summary

Liquidity analysis examines whether a company has sufficient short-term resources to meet obligations falling due within its operating cycle. This report preserves the original comparison of Nestlé and Unilever for 2017 and 2018 but recalculates the ratios from the companies' consolidated balance sheets. The original draft used only Unilever's current financial liabilities rather than total current liabilities, producing current ratios of 2.12 and 4.78 that do not represent the company's actual short-term position. It also described cash alone as the quick ratio. Using total current assets and total current liabilities, Nestlé's current ratio increased from approximately 0.83 in 2017 to 0.95 in 2018. Unilever's current ratio increased from approximately 0.73 to 0.78. Using cash, short-term financial assets, and trade receivables as quick assets, Nestlé's quick ratio declined from approximately 0.54 to 0.50, while Unilever's increased from approximately 0.40 to 0.54. Both groups operated with current ratios below one, but this does not by itself prove imminent financial distress. Large consumer-goods companies can maintain negative working capital when inventory turns quickly, customers pay promptly, suppliers provide credit, and reliable financing remains available. (Unilever, 2019)

Purpose of the Comparison

Nestlé and Unilever are multinational consumer-goods businesses with established brands, large distribution systems, recurring customer demand, and substantial supplier relationships. Their liquidity ratios help analysts assess short-term financial structure, but comparison requires consistent definitions and verified figures. A ratio should not be interpreted mechanically. The quality of receivables, inventory turnover, payment timing, access to credit, seasonality, and assets held for sale can materially affect liquidity. The analysis therefore calculates the current ratio, quick ratio, cash ratio, and working capital while explaining what each measure can and cannot show.

A closely related analysis is available in Comparison between Nestle and Unilever.


NESTLÉ AND UNILEVER
LIQUIDITY RATIO COMPARISON
2017 TO 2018
Liquidity ratios measure a company's ability to meet short-term obligations.
Below is a comparison of Nestlé and Unilever for 2017 and 2018.
CURRENT RATIO
(Current Assets / Current Liabilities)
1.93
1.44
2.07
1.50
2017
2018
Nestlé
Unilever
Nestlé maintains a stronger current ratio in both years, indicating better ability to cover short-term liabilities.
QUICK RATIO
(Quick Assets / Current Liabilities)
1.44
1.04
1.60
1.10
2017
2018
Nestlé
Unilever
Nestlé's quick ratio is higher in both years, showing stronger liquidity when inventory is excluded.
CASH RATIO
(Cash & Cash Equivalents / Current Liabilities)
0.26
0.18
0.30
0.19
2017
2018
Nestlé
Unilever
Nestlé holds more cash relative to liabilities, indicating a stronger cash position in both years.
WHAT THE RATIOS MEAN
Current Ratio
Measures the ability to cover short-term liabilities with all current assets.
Quick Ratio
Measures the ability to cover short-term liabilities with liquid assets, excluding inventory.
Cash Ratio
Measures the ability to cover short-term liabilities with cash and cash equivalents only.
KEY INSIGHTS
Nestlé demonstrates stronger liquidity across all three ratios in both 2017 and 2018.
Both companies improved their liquidity ratios from 2017 to 2018.
Stronger liquidity means greater financial flexibility and a better ability to handle short-term obligations.
https://academic-master.com/

Source and Basis of the Financial Data

The figures are taken from the consolidated financial statements of the Nestlé Group and Unilever Group for the years ended December 31, 2018, with 2017 comparative figures. Nestlé reports in millions of Swiss francs, while Unilever reports in millions of euros. The currencies do not need to be converted because ratios divide figures from the same company and currency. Absolute amounts should not be compared directly across companies without currency conversion, but the resulting ratios are dimensionless and can be compared cautiously. Nestlé's 2017 comparatives were restated for changes described in its financial statements, so the restated amounts are used to maintain consistency with the 2018 report. (S, 2019)

Meaning of the Current Ratio

The current ratio is calculated as total current assets divided by total current liabilities. Current assets generally include cash, short-term investments, inventories, receivables, tax assets, and other resources expected to be realized within twelve months or the operating cycle. Current liabilities include short-term borrowing, trade payables, taxes, provisions, accruals, and other obligations due in the same period. A ratio of one means reported current assets equal reported current liabilities. A ratio above one indicates a numerical surplus, while a ratio below one indicates negative working capital. Neither result is automatically good or bad. A very high ratio may reflect unused cash or slow inventory, while a lower ratio may be sustainable when cash conversion is fast and financing is dependable.

Meaning of the Quick Ratio

The quick ratio is intended to focus on assets that can normally be converted into cash more readily than inventory. Definitions differ across textbooks and analysts, which is why the formula should be stated explicitly. In this report, Nestlé's quick assets are cash and cash equivalents, short-term investments, and trade and other receivables. Unilever's quick assets are cash and cash equivalents, other current financial assets, and trade and other current receivables. Inventory, current tax assets, prepayments, and assets held for sale are excluded. The quick ratio is therefore not simply "cash in hand." A cash-only calculation is a cash ratio and is substantially more restrictive.

Nestlé's 2017 Current Ratio

Nestlé reported total current assets of CHF 31,884 million and current liabilities of CHF 38,189 million for 2017. Dividing 31,884 by 38,189 gives a current ratio of approximately 0.83. Working capital was negative CHF 6,305 million. The ratio means that Nestlé reported about CHF 0.83 of current assets for each CHF 1.00 of current liabilities at year-end. This requires attention, but the figure should be considered with the company's operating cash flow, credit facilities, recurring sales, and maturity profile. The company's financial statements described revolving credit facilities that served as backup to short-term debt, an important part of liquidity management not captured in the current ratio.

Nestlé's 2018 Current Ratio

In 2018, Nestlé reported current assets of CHF 41,003 million and current liabilities of CHF 43,030 million. The current ratio was therefore approximately 0.95, and negative working capital narrowed to CHF 2,027 million. On the surface, this represents an improvement because current assets became much closer to current liabilities. However, the increase in current assets included CHF 8,828 million classified as assets held for sale, mainly connected with disposals. Assets held for sale may be realizable, but they are not necessarily equivalent to recurring operating liquidity. Analysts should therefore investigate the composition of the improvement rather than treating the higher ratio as entirely operational.

Change in Nestlé's Current Position

Nestlé's current assets increased by CHF 9,119 million between 2017 and 2018, while current liabilities rose by CHF 4,841 million. Cash and cash equivalents declined from CHF 7,938 million to CHF 4,500 million, but short-term investments increased from CHF 655 million to CHF 5,801 million. Assets held for sale increased substantially. Current financial debt also increased. These movements show why a single ratio is insufficient. Nestlé's current ratio improved, but the company held less cash and more short-term investments, disposals-related assets, and current debt. Liquidity remained manageable within a broader treasury structure, yet the composition became different rather than uniformly safer.

Nestlé's Quick Ratio

For 2017, Nestlé's quick assets under the stated formula were CHF 7,938 million of cash, CHF 655 million of short-term investments, and CHF 12,036 million of trade and other receivables. The total of CHF 20,629 million divided by current liabilities of CHF 38,189 million produces a quick ratio of approximately 0.54. For 2018, cash of CHF 4,500 million, short-term investments of CHF 5,801 million, and receivables of CHF 11,167 million totaled CHF 21,468 million. Dividing by CHF 43,030 million produces approximately 0.50. Nestlé's quick ratio therefore declined slightly even though its current ratio improved. The difference is largely explained by the growth of assets held for sale and other current items excluded from the quick calculation.

Nestlé’s Cash Ratio

If only cash and short-term investments are compared with current liabilities, Nestlé’s cash ratio was approximately 0.23 in 2017 and 0.24 in 2018. This indicates that immediately liquid financial assets covered roughly one-quarter of reported current obligations. A low cash ratio is common for companies that continuously generate cash from sales and maintain credit access. Holding enough cash to cover every current liability could be inefficient. The relevant issue is whether cash inflows, facilities, and refinancing arrangements are sufficiently reliable when obligations mature.

Unilever’s 2017 Current Ratio

Unilever reported current assets of €16,983 million and total current liabilities of €23,177 million in 2017. The correct current ratio was approximately 0.73, not 2.12. The earlier calculation divided current assets by current financial liabilities of €7,968 million and omitted trade payables, tax liabilities, provisions, and liabilities held for sale. These omitted categories are genuine current obligations and must be included. Unilever’s working capital was negative €6,194 million. The company’s business model, supplier credit, brand demand, and cash generation help explain why a ratio below one could be maintained, but the figure still indicates reliance on ongoing operations and financing.

Unilever’s 2018 Current Ratio

In 2018, Unilever reported current assets of €15,481 million and total current liabilities of €19,772 million. The current ratio was approximately 0.78, not 4.78. The incorrect 4.78 calculation used only €3,235 million of current financial liabilities as the denominator. Unilever also had €14,457 million of trade payables and other current liabilities, €1,445 million of current tax liabilities, €624 million of provisions, and €11 million of liabilities held for sale. Negative working capital narrowed to €4,291 million, indicating some improvement from 2017.

Change in Unilever’s Current Position

Unilever’s current assets decreased by €1,502 million, but current liabilities fell by €3,405 million. A major reason was the reduction in current financial liabilities from €7,968 million to €3,235 million. Assets held for sale also fell from €3,224 million to €119 million following the disposal of the spreads business. Inventories and receivables increased, while cash decreased slightly. The improved current ratio therefore resulted mainly from the larger reduction in liabilities, but the disposal makes direct year-to-year interpretation more complex. The company’s balance sheet was affected by portfolio restructuring rather than only routine working-capital management.

Unilever’s Quick Ratio

Unilever’s 2017 quick assets consisted of €3,317 million in cash, €770 million of other current financial assets, and €5,222 million of trade and other current receivables. The total of €9,309 million divided by current liabilities of €23,177 million gives a quick ratio of approximately 0.40. In 2018, cash of €3,230 million, other current financial assets of €874 million, and receivables of €6,485 million totaled €10,589 million. Dividing by current liabilities of €19,772 million gives approximately 0.54. Unilever’s quick ratio improved materially because receivables increased and current liabilities decreased.

Unilever’s Cash Ratio

Using cash and other current financial assets, Unilever’s cash ratio was approximately 0.18 in 2017 and 0.21 in 2018. This is lower than its quick ratio because receivables are excluded. The movement indicates a modest increase in immediately available financial coverage, even though reported cash declined slightly. The improvement came from the lower current-liability balance and the rise in other current financial assets.

Direct Comparison of the Current Ratios

Nestlé had a higher current ratio than Unilever in both years. In 2017, Nestlé’s approximately 0.83 exceeded Unilever’s 0.73. In 2018, Nestlé’s approximately 0.95 exceeded Unilever’s 0.78. Nestlé also showed a larger numerical improvement. However, Nestlé’s 2018 ratio was influenced by the substantial increase in assets held for sale. Unilever’s ratio improved despite a sharp reduction in assets held for sale because its current liabilities fell more rapidly than current assets. The comparison therefore favors Nestlé on the headline current ratio but requires qualification. (Unilever, 2019)

Direct Comparison of the Quick Ratios

The quick-ratio comparison tells a different story. Nestlé’s quick ratio was higher in 2017 at approximately 0.54 compared with Unilever’s 0.40. In 2018, Unilever rose to approximately 0.54 while Nestlé declined to approximately 0.50. By the end of 2018, Unilever therefore had slightly greater coverage of current liabilities from cash, current financial assets, and receivables under the formula used. This demonstrates why analysts should not rely on the current ratio alone. Nestlé’s 2018 current-assets improvement was not matched by an increase in the narrow quick-assets measure.

Inventory and the Consumer-Goods Business Model

Both companies produce and distribute consumer goods, so inventory is an essential operating asset rather than an inherently undesirable holding. Nestlé reported inventories of CHF 9,177 million in 2017 and CHF 9,125 million in 2018. Unilever reported €3,962 million and €4,301 million respectively. Excluding inventory in the quick ratio provides a conservative measure, but it does not mean inventory has no liquidity value. Branded food, home-care, and personal-care products may sell continuously. The analyst should examine inventory turnover, obsolescence, product shelf life, and distribution efficiency before deciding how much risk the inventory creates.

Receivables and Asset Quality

Receivables are included in the quick ratio because they are expected to convert into cash, but collectability and timing matter. A receivable due from a financially strong retailer within thirty days is more liquid than a disputed balance due much later. Nestlé’s trade and other receivables declined between 2017 and 2018, while Unilever’s increased. The increase helped Unilever’s quick ratio, but analysts should also review credit-loss allowances and customer concentration. A higher ratio created by slow or doubtful receivables may not represent stronger liquidity.

Negative Working Capital in Fast-Moving Consumer Goods

Negative working capital can be sustainable for a large fast-moving consumer-goods company. Customers may pay retailers and distributors quickly, while the company pays suppliers later under negotiated terms. Inventory may move through the supply chain rapidly, generating cash before supplier invoices mature. This creates a form of supplier financing. However, the model can become vulnerable if sales fall, suppliers shorten terms, input costs rise, or credit markets tighten. The quality and stability of operating cash flow should therefore be considered alongside the ratios.

Limitations of the Analysis

Year-end figures provide a snapshot and may not represent average liquidity throughout the year. Seasonal purchases, tax payments, acquisitions, disposals, and financing transactions can alter the balance sheet near the reporting date. The comparison also involves companies reporting in different currencies and with different product mixes and portfolio events. Ratio definitions vary, particularly for the quick ratio. Finally, liquidity is not the same as profitability or solvency. A profitable company can experience a cash shortage, while a liquid company may have weak long-term economics. A complete assessment would add operating cash flow, debt maturities, interest coverage, inventory and receivable turnover, credit facilities, and several years of trends.

Conclusion

The corrected analysis shows that neither Nestlé nor Unilever had current ratios above one in 2017 or 2018. Nestlé's current ratio improved from approximately 0.83 to 0.95, while Unilever's improved from approximately 0.73 to 0.78. Nestlé had the stronger headline current ratio in both years. The quick ratio, however, moved from approximately 0.54 to 0.50 for Nestlé and from approximately 0.40 to 0.54 for Unilever. Unilever therefore slightly exceeded Nestlé on this narrower measure in 2018. The results do not establish that either company could not meet its obligations. They indicate negative working-capital models that depend on recurring cash generation, supplier financing, asset quality, and access to credit. Accurate denominators and explicit ratio definitions are essential; using only financial debt as "current liabilities" produces a misleading conclusion. (Unilever, 2019)

References

Nestlé S.A. (2019). *Consolidated financial statements of the Nestlé Group 2018*. Nestlé.

Unilever. (2019). *Annual report and accounts 2018*. Unilever.

Robinson, T. R., Henry, E., Pirie, W. L., & Broihahn, M. A. (2020). *International financial statement analysis* (4th ed.). CFA Institute Investment Series.

Subramanyam, K. R. (2014). *Financial statement analysis* (11th ed.). McGraw-Hill Education.