



General Mills

Fourth Quarter and Full Year Fiscal 2022 Earnings Webcast

June 29, 2022

CORPORATE PARTICIPANTS

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Jeff Harmening, *Chairman and Chief Executive Officer*

Kofi Bruce, *Chief Financial Officer*

PRESENTATION

Jeff Siemon

Good morning. This is Jeff Siemon, Vice President of Investor Relations, and I want to thank you for listening to our prepared remarks on General Mills' Fourth Quarter and Full Year Fiscal 2022 earnings. Later this morning we will hold a separate live question-and-answer session on today's results, which you can hear via webcast on our Investor Relations website.

Joining me for this morning's presentation are Jeff Harmening, our Chairman and CEO, and Kofi Bruce, our CFO. But before I hand things over to them, let me first touch on a few items.

On our website, you will find our press release that posted this morning, along with a copy of the presentation and transcript of these remarks. Please note that today's remarks include forward-looking statements that are based on management's current views and assumptions. The second slide in today's presentation lists several factors that could cause our future results to be different than our current estimates.

With that, I'll turn it over to Jeff.

Jeff Harmening

Thank you Jeff, and good morning everyone.

Let me start by summarizing today's key messages. Fiscal '22 was another successful year for General Mills, marking the fourth consecutive year that we've delivered results that met or exceeded our targets for top and bottom line growth and cash generation. I'm proud of how our execution outpaced our competition in a highly volatile operating environment. Though significant inflation and supply chain disruptions put pressure on our margins, we responded quickly to address those challenges and keep our brands on shelf for our retail customers and consumers. We did this while taking significant steps to reshape our portfolio, announcing or closing two acquisitions and five divestitures during the year.

We plan to build on our momentum by continuing to drive our Accelerate strategy in Fiscal '23. Importantly, our Board reinforced its confidence in our performance and outlook by approving a 6% increase in our dividend, underlying our commitment to driving strong returns for General Mills shareholders over the long term.

Slide 5 summarizes our fourth quarter and Fiscal '22 financial performance. We finished the year with positive momentum, including double-digit growth on organic net sales, constant currency adjusted operating profit, and constant currency adjusted diluted earnings per share. For the full year we generated 6% organic net sales growth driven by elevated price mix benefits in the face of input cost inflation that rose through the year.

On the bottom line, though our gross and operating margins were below prior year levels, we were able to deliver constant currency growth of 2% on adjusted operating profit and 4% on adjusted diluted EPS. And, when looking at our performance compared to pre-pandemic levels in Fiscal '19, our results are in line with or ahead of our long-term growth goals, including mid-single digit growth in organic net sales and adjusted operating profit, and high single-digit growth in adjusted diluted EPS.

Our strong performance in Fiscal '22 was enabled by our successful execution against our three enterprise priorities: continuing to compete effectively; successfully navigating the dynamic supply chain environment; and executing our portfolio and organization reshaping actions without disrupting our base business. Let me briefly share a few examples of our performance in Fiscal '22 on each of these priorities.

We competed effectively in Fiscal '22, holding or growing market share in 70% of our priority businesses. This includes our Cereal, Pet Food and Mexican Food global platforms, as well as local gem brands such as Pillsbury refrigerated dough, our U.S. fruit snacks business and Wanchai Ferry frozen dumplings in China. And this is not simply a recent phenomenon.

Fiscal '22 marks the fourth consecutive year that we have held or gained share on roughly two thirds of our priority businesses globally, including periods before and during the pandemic, and in low and high inflationary periods. This includes five consecutive years of share growth on U.S. Cereal, and four consecutive years on Mexican, Pet and U.S. Refrigerated Dough. We've been able to consistently win in the market by continuing to invest in news and innovation behind our brands, and by leveraging our best-in-class supply chain to service our customers better than our competition.

The relative strength of our supply chain particularly stood out over the past year as we and the industry experienced a record level of disruptions. We saw challenges in our upstream suppliers, our internal and co-packer facilities, and our downstream transportation network, all of which were largely driven by labor shortages across the supply chain.

Throughout the year we focused on pivoting quickly to respond to ever-changing disruptions. For instance, we were able to quickly address ingredient shortages on our U.S. Pillsbury and Totino's business in Q3, driving a rapid rebound in our on-shelf availability. While our service and availability metrics were below our historical standards, I am proud to say that we were consistently ahead of our competition in the majority of our businesses, leading to stronger share performance and better relationships with our retail customers.

In addition to elevated levels of disruptions, we also faced significant and rising input cost inflation during Fiscal '22, reaching double digits in Q4 and 8% for the full year. To address inflation, we continue to lean on our HMM Productivity Program and we supplemented that with broad-based strategic revenue management actions across our portfolio, resulting in 6 points of positive price mix contribution for the year excluding index pricing on bakery flour.

Finally, we successfully executed against portfolio and organizational shaping actions throughout Fiscal '22 without disrupting our base business. On the portfolio side, we completed two growth-accretive acquisitions over the past 12 months. Last July, we closed the acquisition of the Nudges True Chews and Top Chews dog treat brands from Tyson Foods, strengthening our position in the rapidly growing U.S. pet

food category. And last week closed on the acquisition of TNT Crust, a high quality, fast-growing frozen pizza crust business operating in foodservice channels in the U.S., where we can leverage our dough technology and go-to-market capabilities to drive attractive growth.

We also closed or announced five different divestitures of slower growth businesses in the past year, enabling us to increase our focus on our priority businesses. In Q3 we completed the divestiture of our European yogurt business. Over the past two quarters we completed three separate transactions to divest our dough businesses in the Europe and Israel markets. And in May, we announced the proposed sale of our Helper main meals and Suddenly Salad side dishes business to Eagle Family Food Group. We are partnering with Eagle Foods to ensure a smooth transition and expect that deal to close in the coming weeks. These transactions represent important further steps as we upgrade the growth profile of our portfolio.

At the same time, we have more work to do to reach our long-term growth goals, which is why we don't see portfolio reshaping as an episodic activity, but rather, an always-on component of our Accelerate strategy.

In addition to portfolio shaping actions, we made four key changes to our organization over the past year. Within our North America Retail segment, we realigned our structure and better aligned our commercial and supply chain resources with our operating units, helping drive improved agility and execution. With the move, our U.S. Convenience Store business to North America Retail, our North America Foodservice segment is now exclusively focused on the U.S. and Canadian Foodservice channels. This change improves our focus and helps us leverage synergies within our Foodservice and Snacking channels.

With the divestiture of our European yogurt business, we consolidated our markets outside North America into a single international segment, which simplified our operations. We also shifted our go-to-market structure for several markets to distributor models, which should allow for improved growth and greater efficiency.

Finally, we established a new Strategy & Growth team, which is helping us put our Accelerate strategy into action.

In total, these changes position our businesses for greater competitiveness and agility, and they strengthen our ability to deliver long-term profitable growth for our shareholders.

I'm extremely proud of our team's work this year to deliver against our priorities in a highly dynamic environment. Our performance in Fiscal '22 gives me confidence that our strategy is working.

Turning to Fiscal '23, we plan to continue driving our Accelerate strategy, highlighted by three priorities that are outlined on Slide 12. We will continue to compete effectively by boldly building our brands, relentlessly innovating, and servicing the business with excellence. We will continue to invest for the future by delivering HMM and SRM to offset inflation, making strategic investments in the business, and continuing to progress against our ESG commitments. And we will continue to reshape our portfolio by ensuring smooth transitions for our announced deals and assessing the landscape for additional growth and value-enhancing transactions.

It is becoming increasingly clear that the environment in Fiscal '23 will remain dynamic. We expect a significant step-up in input cost inflation this year, from 8% in Fiscal '22 to approximately 14% in Fiscal '23. We are planning for rising inflation and reduced consumer spending power to lead to an increase in at-home eating and other value-seeking behaviors. As a result, we expect elasticities will increase versus Fiscal '22 levels but remain below historic levels in Fiscal '23.

We are planning for a moderate reduction in the level of disruptions and supply chain challenges in Fiscal '23, but still expect them to remain significantly higher than historic levels.

Finally, we expect the pandemic to continue to impact consumers' lives, affecting health and mobility around the globe. We expect parts of the world will continue to experience COVID surges, driving mobility restrictions and impacting consumer food choices.

Amid this dynamic environment, we are confident we will continue to compete effectively, leveraging the brand building playbook that has contributed to our success in recent years. We have grown our media investment at a 5% compounded rate in the three years through Fiscal '22, and plan to increase media investment further in Fiscal '23.

We are investing behind exciting brand ideas, including a new campaign from Nature Valley that elevates our brand purpose of making nature's energy accessible for all. We are supporting Häagen-Dazs with a compelling new global campaign highlighting the superiority and irresistibility of Häagen-Dazs Ice Cream. We are also extending the power of the Blue Buffalo master brand to our newly acquired Nudges Top Chews and True Chews brands, which will help significantly increase the awareness of these highly differentiated products.

And we are increasingly leveraging the power of data and technology to connect more deeply with our consumers with the most relevant message when and where they shop. For example, on our U.S. Cereal business, we're creating personalized connections with our consumers to deliver taste, health, variety or value messaging on our leading brands.

And we'll continue to compete effectively with best-in-class innovation. We're launching an exciting lineup of new products in the first half of Fiscal '23, including Cinnamon Toast Crunch Rolls cereal, and Pillsbury mini pie crust in the U.S., Nature Valley Crunchy Dip bars in the U.S. and Europe, new varieties of Häagen-Dazs duos and Twist and Crunch offerings in Asia and Europe, and continued expansion of our Tasteful Spoonless Singles innovation on Blue Buffalo.

We will also continue to invest for the future. Considering the record level of input cost inflation, we will continue to leverage our HMM and SRM capabilities to address rising costs and enable investment into the business. This includes strategic investments to build for our future. We are prioritizing investments in growth capital to increase capacity on key platforms such as Pet Food, Fruit Snacks, Cereal and Hot Snacks. We are advancing our connected commerce capabilities by optimizing digital shelf metrics to ensure we show up brilliantly online and by investing in first-party data to drive greater consumer insights and relevant consumer engagement.

We are also continuing to invest to strengthen our digital and technology capabilities which are unlocking growth and efficiency opportunities across our business. And we're investing to further advance our Force for Good commitments.

Being a Force for Good remains a key pillar of our Accelerate strategy with a focus on four priorities: regenerating our planet, improving food security, protecting our people and strengthening our communities.

We recently released our 52nd Annual Global Responsibility Report and held a Force for Good investor event in which we shared the progress we have made on our ambitious ESG goals and how doing good drives shareholder returns. If you haven't had a chance to read our Global Responsibility Report and watch our Force for Good investor event, I encourage you to take some time to check them out on our Investor Relations website.

Our Force for Good event highlighted our 10 key ESG commitments and progress we are making in this space. To date, we've enrolled more than 225,000 acres in regenerative agriculture programs and we expect to reach 350,000 acres by the end of this fiscal year on our path to advancing 1 million acres of regenerative agriculture by 2030.

We have advanced in other areas as well. For example, approximately 90% of our packaging is now designed to be recyclable; 40% of our plants have achieved zero waste to landfill; and roughly 90% of our electricity comes from renewable sources.

While we still have much to do to achieve our commitments, I'm proud of the work we have done here. We are building on a long history of doing good with a strong sense of urgency focusing on how we can better integrate our Force for Good across our business.

We plan to continue our strong execution against our Accelerate strategy in Fiscal '23, resulting in the financial targets we have outlined on Slide 17. We expect organic net sales to grow 4% to 5%. We expect adjusted operating profit to range between down 2% and up 1% in constant currency, including a 3-point headwind from the net impact of our divestiture and acquisition activity. We expect adjusted diluted EPS to range between flat and up 3% in constant currency, also including a 3-point net headwind from divestitures and acquisitions. And we expect free cash flow conversion to be at least 90% of adjusted after tax earnings.

With that, let me turn it over to Kofi to go into more details on our Fiscal '22 results and Fiscal '23 outlook.

Kofi Bruce

Thanks Jeff, and hello everyone. Let's start with our fourth quarter financial results on Slide 19.

Net sales of \$4.9 billion were up 8% for the quarter. Organic net sales grew 13%. Adjusted operating profit of \$896 million was up 21% in constant currency, driven positive price mix and lower SG&A expenses, partially offset by higher input costs and lower volume.

Adjusted diluted earnings per share of \$1.12 were up 23% in constant currency, due to higher adjusted operating profit and a lower average share count.

Slide 20 summarizes the components of our reported net sales in the quarter. We generated 14 points of organic price mix from SRM actions in response to double-digit input cost inflation. This price mix result included a 2-point benefit at the enterprise level from index pricing on bakery flour in our Foodservice business.

Elasticities remained well below historical levels with organic pound volume being a 2-point headwind in the quarter. Foreign exchange reduced net sales growth by 1 point, and our net acquisition and divestiture activity was a 4-point headwind to net sales in the quarter.

A review of our segment results begins on Slide 21. For North America Retail, fourth quarter organic net sales were up 11%. Constant currency segment operating profit was up 18% in the quarter, driven by positive price mix partially offset by higher input costs and lower volume.

For the full year, organic net sales were up 3%, including 9 points of positive price mix partially offset by a 6-point headwind from lower volume. Net sales for the U.S. Snacks operating unit were up 9% for the year, led by strong performance on snack bars and fruit snacks. Another year of growth on cereal helped drive U.S. Morning Foods net sales up 2%. Canada constant currency net sales increased 1%, and net

sales for the U.S. Meals and Baking Solutions unit were flat to last year. We competed effectively in Fiscal 2022 with roughly two thirds of our retail business in the U.S. holding or growing share for the full year.

Constant currency segment operating profit was down 1% for the year, driven by higher input costs and lower volume partially offset by positive price mix and lower SG&A expenses.

Moving on to our Pet segment results on Slide 22, fourth quarter organic net sales were up 22% and reported net sales increased 37%, including the Pet Treats acquisition. Constant currency segment operating profit was up 10% in the quarter driven by positive price mix and higher pound volume, partially offset by higher input costs and higher SG&A expenses. Input costs were particularly challenging for the Pet segment in the fourth quarter with inflation reaching the mid teens and costs of supply chain disruptions increasing significantly. Our service levels on Pet were challenged in Q4, driven by increased supply chain disruptions and capacity limitations that did not allow us to meet the strong growth in demand.

In the short term, we are working aggressively to improve service, including debottlenecking in our owned plant and adding new co-packer capacity, and we've recently approved nearly \$150 million of new capital to expand capacity in our plants and warehouses, which will begin to come online next year.

For the full year, net sales for our Pet segment increased 30% to \$2.3 billion. Demand for Blue Buffalo remained strong with organic net sales up 18%.

The Blue Buffalo brand gained market share in measured channels in Fiscal '22, though capacity constraints limited our ability to grow with the underlying demand.

On the bottom line, constant currency segment operating profit increased 13% for the full year, driven primarily by positive price mix and higher volume, including benefits from the pet treats acquisition, partially offset by higher input costs and higher SG&A expenses.

Turning to North America Foodservice results on Slide 23, fourth quarter organic net sales were up 25%, including a 16-point benefit from index pricing on bakery flour. Segment operating profit increased 23%, driven by positive price mix, partially offset by higher input costs and higher SG&A expenses.

For the full year, organic net sales for North America Foodservice grew 24%, reflecting an 11-point favorable impact from index pricing as well as increased demand in our core categories, primarily in cereal, yogurt and frozen baked goods.

Segment operating profit increased 26% for the year, driven by positive price mix and higher volume, partially offset by higher input costs.

Moving on to our International segment on Slide 24, fourth quarter organic net sales were up 6% and constant currency segment operating profit was up 40%, driven by favorable price mix and lower SG&A expenses, partially offset by lower volume, including the impact of the European yogurt and dough divestitures and higher input costs.

Full year International net sales were down 9%, reflecting the impact of divestitures. Organic net sales were up 2% for the year, driven by higher price mix. We competed effectively in our international markets in Fiscal '22 with 69% of our priority businesses holding or growing share for the year.

Full year segment operating profit was down 4% in constant currency, driven by higher input costs and lower volume, including the impact of divestitures, partially offset by positive price mix and lower SG&A expenses.

Slide 25 summarizes our joint venture results. Cereal Partners Worldwide net sales were flat in the fourth quarter and down 1% for the year in constant currency, reflecting a difficult comparison against pandemic driven elevated volume in Fiscal '21. Häagen-Dazs Japan net sales were up 6% in the quarter and up 9% for the year in constant currency, driven by successful new product launches and strong underlying category demand.

Full year after-tax earnings from joint ventures were down 5% to \$112 million. On a three-year compound growth basis relative to pre-pandemic levels, after-tax joint venture earnings increased 16%.

Now let's turn to fourth quarter margin results on Slide 26. Adjusted gross margin improved sequentially versus Q3 and was down 70 basis points versus last year. Another step up in price mix and continued HMM cost savings were enough to offset double-digit input cost inflation in the quarter, but were not enough to fully offset headwinds from supply chain disruptions, deleverage and other costs of goods sold.

Q4 adjusted operating profit margin was up 200 basis points, reflecting lower SG&A expenses as a percent of net sales partially offset by lower adjusted gross margin.

Slide 27 summarizes other noteworthy income statements items in the fourth quarter. Adjusted unallocated corporate expenses increased by \$4 million. Net interest expense increased \$2 million in the quarter, driven by expense related to a note prepayment, partially offset by lower average debt balances.

The adjusted effective tax rate for the quarter was 19% compared to 18.5% a year ago, due primarily to certain nonrecurring discrete items in the prior year, partially offset by favorable earnings mix this year.

Average diluted shares outstanding were down 1%, reflecting our share repurchase activity.

Our full year financial results are summarized on Slide 28. Net sales of \$19 billion were up 5%. Organic net sales increased 6%, driven by 7 points of positive organic price mix, including a 1-point benefit from index pricing on bakery flour, partially offset by a 1-point headwind from lower organic pound volume. Adjusted operating profit of \$3.2 billion increased 2% in constant currency, driven by lower SG&A expenses. Adjusted diluted earnings per share of \$3.94 were up 4% in constant currency.

As Jeff mentioned, these results represent strong performance on a three-year compound growth basis compared against pre-pandemic levels in Fiscal '19. This includes 5% compound annual growth in organic net sales, a 4% CAGR on constant currency adjusted operating profit, and a 7% CAGR on constant currency adjusted diluted earnings per share.

Now let's turn to our full year margin results on Slide 29. Our Fiscal '22 adjusted gross margin was down 180 basis points. While the combination of our HMM and SRM efforts were sufficient to offset 8% inflation for the year, we were not able to cover the incremental costs associated with the significant disruptions across the supply chain this year. We expect to leverage our HMM productivity practices to eliminate those disruption related costs over time as the operating environment stabilizes.

Full year adjusted operating profit margin was down 50 basis points, driven by lower adjusted gross margin partially offset by lower SG&A expenses as a percent of net sales.

Now turning to the balance sheet and cash flow on Slide 30, annual operating cash flow of \$3.3 billion was up 11% versus last year, driven by changes in current assets and liabilities and increased net earnings, partially offset by changes in restructuring costs and divestiture gains. We made further good progress reducing our core working capital with the balance down \$205 million from a year ago, driven by continued improvement in accounts payable. Capital investments of \$569 million were up 7% for the year.

We delivered another year of strong free cash flow conversion at 113% of adjusted after-tax earnings. And we reduced our leverage ratio to 2.8X net debt to Adjusted EBITDA, even after funding the pet treats acquisitions and stepping up our cash returns to shareholders.

You can see on Slide 31 that we increased total cash return to shareholders by 33% in Fiscal '22 to \$2 billion. Our higher annual dividend rate in Fiscal '22 was offset by a lower net share count, resulting in roughly flat total dividends paid of \$1.2 billion. And our continued strong cash generation allowed us to step up full year net share repurchase activity to roughly \$700 million.

With net earnings growth in Fiscal 2022 and plans for continued growth in Fiscal '23, our Board of Directors today announced a 6% increase in our quarterly dividend rate to \$0.54 per share, effective with our August payment. General Mills has paid a dividend with out interruption or reduction for each of the 94 years we have been a public company.

On Slide 32, we provided some key financial assumptions for Fiscal '23. As we mentioned earlier, we are forecasting approximately 14% inflation on our cost of goods sold, driven largely by ingredients, packaging material and logistics. We expect to generate HMM cost savings of 3% to 4% of COGS, and the vast majority of our low double-digit price mix assumption is either carried over from Fiscal '22 or from SRM initiatives that are already in the market in Fiscal '23.

We anticipate volume to down this year with elasticities increasing but remaining below historical levels. Additionally, we are assuming approximately 3 points of headwind from lower operating profit and stranded costs from the net impact of our divestiture and acquisition activity.

Below operating profit, we expect net interest expense to be roughly in line with Fiscal '22 levels at approximately \$380 million.

Our adjusted effective tax rate is estimated to be between 21% and 22%.

Leveraging our strong cash flow and net proceeds from divestitures, we anticipate reducing average diluted shares outstanding by 2% to 3%, and we're planning to fund capital investments of approximately 4% of net sales.

Based on these assumptions, Slide 33 reiterates the Fiscal 2023 outlook that Jeff shared earlier in his remarks. I'll note that this outlook incorporates the impact of all acquisitions and divestitures that have previously closed, as well as the divestiture of Helpers and Suddenly Salad, which we expect will close shortly.

With that, I will now turn the call back over to Jeff for some closing remarks.

Jeff Harmening

Thanks Kofi. Let me close with a few thoughts.

I am proud of the way we've adapted to a challenging environment and delivered strong performance in Fiscal '22, and importantly, we've been able to do that while successfully taking actions to reshape our portfolio and organization for future growth. We'll continue to drive our Accelerate strategy in Fiscal '23 by competing effectively, investing for the future, and further reshaping our portfolio.

Thank you for your time this morning. This concludes our prepared remarks. I invite you to listen to our live question-and-answer webcast, which will begin at 8:00 a.m. Central time this morning, and will be available for replay at [generalmills.com](https://www.generalmills.com).