



General Mills, Inc.

Fiscal 2021 Second Quarter Earnings Results

December 17, 2020

C O R P O R A T E P A R T I C I P A N T S

Jeff Siemon, *Vice President, Investor Relations*

Jeff Harmening, *Chairman and Chief Executive Officer*

Kofi Bruce, *Chief Financial Officer*

P R E S E N T A T I O N

Jeff Siemon

Good morning. Thank you for joining us to hear our prepared remarks on General Mills' second quarter Fiscal 2021 earnings.

Later this morning, we will hold a live question-and-answer session on today's results, which you can hear via webcast on our Investor Relations website.

In a moment, I'll turn the call over to Jeff Harmening, our Chairman and CEO, and Kofi Bruce, our CFO, but before I do, let me first touch on a few items.

On our website, you will find our second quarter press release that posted this morning, along with a copy of the presentation and a transcript of these remarks.

It's important to note that today's remarks will include forward-looking statements that are based on Management's current views and assumptions, including facts and assumptions Jeff and Kofi will share related to the potential impact of the COVID-19 pandemic on our results in Fiscal '21. 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 you over to my colleagues, beginning with Jeff.

Jeff Harmening

Thanks, Jeff, and good morning, everyone.

Today's key messages are listed on Slide 4.

We executed very well again in the second quarter, driving strong performance on the top and bottom lines. As the pandemic continues to significantly impact our key markets around the world, we're focusing on what we can control: keeping our manufacturing facilities operating safely with minimal disruption, partnering with suppliers and retailers to ensure supply of our products, and delivering consumer solutions that meet their current needs through our trusted, leading brands. Our strong execution has generated winning in-market performance. Our retail sales are outpacing our competition, translating into broad-based market share gains across our major markets.

With excellent performance through the first half, we remain on track to deliver on our three key priorities for fiscal 2021: competing effectively, everywhere we play; fueling investment in our brands and capabilities; and continuing to reduce our leverage.

Because of the current state of the virus in the U.S. and across our major markets, we expect consumer demand for food-at-home will remain elevated, relative to pre-pandemic levels, through the remainder of our Fiscal '21. With elevated demand and continued best-in-class execution, we're forecasting continued strong top and bottom line growth in the third quarter, and while uncertainty with the virus makes it difficult to forecast full year demand, we now expect our full year Fiscal '21 adjusted operating profit margin to be in line or better than last year, based on our first half results that were somewhat ahead of our expectations.

You can see our enterprise second quarter financial performance on Slide 5. Strong demand for food-at-home and continued market share gains helped drive 7% growth in organic net sales in the quarter. Constant currency adjusted operating profit was up 6%, reflecting strong net sales growth, higher input costs, and a double-digit increase in media investment. Constant currency adjusted diluted earnings per share were up 9% in the quarter, and were up 17% in the first half.

As I mentioned upfront, we are focused on three priorities, outlined on Slide 6, that will drive strong performance in Fiscal '21, while advancing our long-term strategies, and I'm pleased to say that we're delivering on all three.

- We continue to compete effectively, everywhere we play. Through the first half, we've driven broad-based market share gains, including holding or growing share in five of our six largest markets.
- We're driving efficiency from our Holistic Margin Management and Strategic Revenue Management initiatives, which we refer to as HMM and SRM, respectively, and we're benefiting from volume leverage, allowing us to offset higher costs to service elevated demand and providing fuel for investments in our brands and capabilities.
- Finally, we made further progress on reducing our debt leverage in the second quarter. Our strong balance sheet position allowed us to recently resume dividend growth and increases our flexibility for bolt-on M&A or share buybacks at the right time.

We are very much in the middle of the pandemic in most of our markets, and expect to be for some time to come. The specific status of the virus and resulting consumer behaviors vary across our key markets:

- In the United States, case counts have been on the rise and demand for our food-at home food categories has grown at a consistent high-single-digit rate in recent months, while away-from-home demand has consistently been down low-double-digits during that time.
- In France and the U.K., the recent surge in cases occurred about a month earlier than in the U.S., and we saw at-home category growth step up as consumer restrictions were put in place.
- In Brazil, very high at-home demand in Q1 moderated in Q2, as consumer restrictions eased.
- In China, the virus is relatively well controlled. While consumer traffic is much closer to normal in our shops, we've seen demand for at-home food, including Wanchai Ferry frozen dumplings, remain notably above pre-pandemic levels.

This situation remains dynamic across each of these markets, and we are staying agile to meet demand as it evolves. We, along with the rest of the world, are highly encouraged by recent vaccine developments. At the same time, the widespread impact of vaccination will likely take time and we expect that at-home food demand will remain robust, relative to pre-pandemic levels for the remainder of our Fiscal '21.

As we take a step back from the day-to-day dynamic, we see consumer behaviors evolving in ways that we think will stick beyond the pandemic.

First, we think consumers will be eating more at home in the “new normal”. Many consumers have told us that they’re enjoying the benefits of home-centricity in their lives, including flexible work environments, more family time, and more balance, driving a better quality of life. We expect more time at home, including more work from home, to be an ongoing part of consumer routines, meaning more opportunities for at-home eating occasions.

We also believe the current recession will last beyond the pandemic, and what we have learned from past recessions is that the first and most significant way consumers economize in their food budgets is by eating more at home. For example, in the Great Recession of 2008 to 2010, we saw growth for our at-home categories accelerate by about two points. Importantly, we were able to drive similar acceleration for our business, allowing us to hold market share through that period. With our improved capabilities and strategic revenue management and personalized marketing, we’re in an even better position to adapt our offerings and connect with consumers in meaningful ways during difficult economic times.

Second, since the onset of the pandemic, consumers have been seeking brands they know and trust to bring a sense of normalcy and comfort to their lives. We’ve seen evidence that our ongoing work to renovate the taste, nutrition and convenience of our products, in addition to our continued focus on brand-building and innovation, is building loyalty with these new and returning consumers that will benefit our brands over the long term.

Third, we’ve seen a dramatic acceleration of food e-commerce adoption and a continued shift toward consumers getting their news, information and other media through digital means, and it’s clear that these changes will have lasting impact beyond the current environment. We’ll benefit from these changes by leveraging our advantaged digital capabilities, including significant first-party consumer interactions, to drive differential growth, and we’ll benefit from our e-commerce capability and strategic customer partnerships, which have helped us over-index in online market share compared to bricks-and-mortar outlets.

With those consumer changes in mind, we’re taking actions to drive success today, and to ensure we win in the long term. These include:

- Boldly building our brands with remarkable brand experiences, supported by appropriate levels of spending.
- Relentless innovating to delight consumers and meet their evolving needs.
- Unleashing our scale through capabilities that drive competitive advantage, including data and analytics, e-commerce, SRM and HMM.

Let me share some examples of how these efforts are coming to life in Fiscal '21. Creating and maintaining vibrant, consumer-relevant brands is central to General Mills’ long-term success. In challenging times, it’s as important as ever that we gain deep empathy for consumers’ lives and create

food and brand experiences that solve their problems and bring them joy. We're focused on engaging consumers with messages that are relevant to their current situation. For example:

- As many consumers are experiencing a non-traditional holiday season, our marketing has been respectful and empathetic to what is a more challenging time. In the U.S., our Betty Flippin' Crocker campaign encourages families that they can create the solutions they need to make cooking and baking easy, affordable and full of joy this holiday season. Pillsbury has also made it their mission to help deliver a holiday season that lets you enjoy the food you love, while making memories at home. These campaigns leverage traditional and digital media, and we're leaning into our Bettycrocker.com and Pillsbury.com food websites to deliver recipe ideas and build consumer connections that drive growth for our brands.
- Our Old El Paso Team showcased our ability to act as a global force for good by partnering with tennis stars from around the world in the #MessFreeChallenge, donating more than 100,000 meals and driving awareness for our innovative Old El Paso tortilla pockets and bowls.
- Yoplait recognizes that kids today may be lacking the physical play they are used to, so, in partnership with Jennifer Lopez and her kids, Yoplait is challenging families to get moving, fueled by the calcium in Yoplait yogurts, to be healthy, active and strong.
- Finally, addressing heart health remains critical for many consumers, but can feel overwhelming in today's world, which is why Cheerios will double-down on the success of last year's Heart Health campaign, by approaching heart health with positivity and joy during Heart Health Month this February.

These messages are resonating with consumers. We continue to drive household penetration growth ahead of our competition, and our new consumers are satisfied with our products, with General Mills' repeat rates outpacing our categories so far this year.

We've also been pleased with our innovation performance in Fiscal '21. We launched a number of successful new products in the first half, including: Cinnamon Cheerios, the top new item in the U.S. cereal category; convenient new Progresso Toppers; Nature Valley Packed sustained energy bars; our re-launched Dunkaroos snacks; and Old El Paso tortilla pockets, which are helping drive tremendous growth for the brand in Europe since they launched this summer.

We also have an existing innovation lineup for the back half of Fiscal '21, as well.

- In the U.S., we're launching Multigrain Cheerios with Strawberries, delivering more great-tasting, common-sense nutrition to the Cheerios franchise, and our new Remix cereal lineup features multi-texture, multi-flavor mashups of tasty cereal pieces, designed to further expand the category into the snacking occasion.
- In U.S. Yogurt, our new Ratio Protein line is the second dairy snack to launch under the Ratio brand, delivering 25 grams of protein with only three grams of sugar.
- We continue to bring news to the snacking aisle, including new Nature Valley Protein Crunch bars in retail outlets and Muddy Buddies pretzel bites in the convenience store channel.
- And we have a full innovation slate outside North America, including the expansion of premium Wanchai Ferry soup dumplings in China and new indulgent Häagen-Dazs ice cream flavors, including Belgian Chocolate & Hazelnut and Dark Chocolate & Caramelized Almond varieties, which will be launching across our international markets.

As you saw in this morning's results, our Pet segment is performing exceptionally well, with organic net sales up 18% this quarter and segment operating profit increasing 48%. We lapped our significant Food, Drug and Mass channel expansion nine months ago, and the BLUE brand continues to win with pet parents as we drive awareness and educate them about the benefits of wholesome natural pet food.

We'll build on this momentum in calendar '21, by launching innovation into segments of the category where the BLUE brand is less developed, including wet cat food and pet treats. For example, wet cat food is roughly a \$5 billion product segment in the U.S., with wholesome natural products only representing about 15% of segment sales, with significant opportunity for expansion.

BLUE will lead the naturalization of the wet cat food segment with the introduction of our new Tasteful line, which launches next month. We've combined our deep category expertise and our technical know-how to develop a line of tasteful products that delivers on our True BLUE promise, with only the finest natural ingredients, while satisfying cats' more demanding palates. Our message to pet parents is simple: one taste is all it takes for your cat to realize how delicious this product is, and for pet parents to realize that taste and healthy ingredients don't have to be mutually exclusive.

We'll support this launch with dedicated investment, leveraging our BLUE integrated marketing model. We're excited about this next step as we continue to expand the BLUE brand across the pet food category, and we'll have more innovation to share as we move through calendar 2021.

The third way we're winning is by leveraging our scale with advantaged capabilities. Specifically, we believe data and analytics will provide the foundation to drive differential growth and efficiency for our enterprise, acting as an enabler for strategic capabilities, such as SRM, e-commerce, digital marketing, integrated planning and HMM.

Let me share an example of how data and analytics is uncovering exciting growth opportunities in digital marketing. Data-driven digital marketing is beginning to fuel every aspect of the General Mills brand experience, from strategy through conversion, in a holistic, connected approach. We're getting smarter every day about how we collect and connect data to gain better insights about consumers and where to play, as well as how to continuously optimize how we activate our messages.

The process for unlocking growth starts with data. We're building rich data sets, including first-party data captured through our proprietary platforms, such as Box Tops for Education and our Bettycrocker.com and Pillsbury.com websites, which interact with 8 million unique users each month. Next, we connect those data sets and use our advanced analytics capabilities to identify previously untapped growth spaces. From there, we segment consumers and then rapidly test multiple iterations of personalized marketing messages, and with the direct link between our digital marketing and e-commerce purchases, we can quickly measure sales impact and assess effectiveness. This agile marketing process is providing in-market learning four to six times faster than our normal process. Finally, we scale the learnings and automate the process to efficiently drive growth.

A great example of how we're applying this today is our Ratio brand, which is geared toward consumers seeking keto-friendly food options. We connected multiple data sets and created over 200 versions of marketing messages, more than 25% of which directly connected to an e-commerce site. From our analysis, we learned who our top growth audience is and the content that resonates most for them, which drove a 24% increase in sales per point of distribution when we scaled up the media.

In another example, we're leveraging connected data and rapidly iterating on marketing messages that reinforce the great value that brands like Pillsbury can offer during this economically challenged time.

Through this process, we identified optimal consumer segments, messaging timing and media placement, resulting in double-digit sales lifts.

Through it's early, we're encouraged by the results we've seen across these personalized marketing implementations. We'll continue to invest and build this capability to drive speed in our learning and decision-making to enable future growth.

I'll now pass it over to Kofi to share more details of our Q2 financial results.

Kofi Bruce

Thanks, Jeff, and hello, everyone.

Let's start with our second quarter financial results, on Slide 16.

Net sales of \$4.7 billion were up 7%. Organic net sales also grew 7% in the quarter, as we continued to compete effectively amid the elevated consumer demand driven by the pandemic.

Adjusted operating profit of \$866 million increased 6% in constant currency, primarily driven by higher net sales, including positive price/mix. This was partially offset by higher input costs, including costs to secure incremental capacity, the comparison to the prior year quarter that included favorable manufacturing leverage, and higher SG&A expenses, including a double-digit increase in media investment.

Adjusted diluted earnings per share totaled \$1.06 in the quarter and grew 9% in constant currency, primarily driven by higher adjusted operating profit, lower net interest expense, and higher after-tax earnings from joint ventures.

Slide 17 summarizes the components of our net sales growth in the quarter. Organic net sales were up 7%, with 4% growth in organic pound volume and three points of positive organic price/mix.

Now, let's turn to segment results, beginning with North America retail, on Slide 18. Second quarter organic net sales were up 9%, led by 18% growth in U.S. Meals and Baking, 6% constant currency growth in Canada, and 4% growth in U.S. Cereal. Second quarter Nielsen-measured U.S. retails sales increased 9%, in line with organic net sales growth. We estimate that retail inventories saw only modest replenishment in the quarter, and we expect further replenishment to occur in the back half of the year as our capacity and consumer demand come into better balance.

We continue to compete effectively in NAR, including year-to-date market share gains in both the U.S. and Canada. The strength of our brand-building, supply chain and sales execution enabled us to hold or gain share in eight of our top 10 U.S. categories through the first half of this fiscal year.

Second quarter constant currency segment operating profit increased 9%, driven by volume growth and fixed cost leverage in the supply chain, partially offset by higher operational costs to service demand, the comparison to the prior year period that included a timing-related manufacturing benefit, and higher SG&A expenses, including a double-digit increase in media investment.

As Jeff mentioned, our organic net sales for our Pet segment grew 18% in the second quarter, driven by broad-based growth across all product segments, including double-digit growth for both dog food and cat food, more than 25% growth for wet food, and roughly 40% growth for treats. The 18% organic net sales growth was driven by all-channel retail sales that were estimated to be up double-digits and an estimated mid-single-digit benefit from increased retail inventory. This quarter's top line performance is on top of

mid-teens organic net sales growth a year ago, when our results benefited from BLUE's most recent significant distribution expansion.

Through the first half of the year, BLUE has continued to gain share and grow household penetration as we drive awareness and benefit from BLUE being available almost everywhere pet parents shop. Net sales were up 13% in the first half, and we estimate roughly two points of that growth represented increased retail inventory.

On the bottom line, Pet's second quarter segment operating profit grew 48% in constant currency, driven by strong volume growth, positive price/mix, and benefits from HMM cost savings, partially offset by higher media investment.

Turning to Convenience Stores & Food Service results, on Slide 20, organic net sales declined 14% in the quarter, driven by the continued reduction in away-from-home demand amid the pandemic. We continued to see double-digit declines on consumer traffic negatively impact the segment's key away-from-home channels, including restaurants, schools, lodging and convenience stores. While the away-from-home industry is seeing headwinds, we are competing well, and we've gained market share in measured channels through the first half of Fiscal 2021. Segment operating profit in the quarter was down 32%, driven by lower net sales and fixed cost de-leverage in supply chain.

In Europe and Australia, second quarter organic net sales increased 3%, primarily driven by growth in Old El Paso Mexican food and Häagen-Dazs retail ice cream. We've competed effectively year to date, holding or growing market share in France and the U.K., the segment's two largest markets, and growing share in Mexican Food and Snack Bars. Second quarter segment operating profit increased 7% in constant currency, driven by higher net sales, including positive price/mix, partially offset by higher media investment and higher input costs.

In Asia and Latin America, second quarter organic net sales grew 10%. Net sales were up double-digits in Latin America, driven by continued strong growth of Yoki meals and snacks, and Kitano seasonings in Brazil. Net sales were up high-single-digits in Asia in the quarter, driven primarily by Wanchai Ferry dumplings in China and by Häagen-Dazs retail ice cream. This was partially offset by continued declines in away-from-home foodservice outlets and Häagen-Dazs Shops. Second quarter segment operating profit increased 8% in constant currency, driven by higher net sales, partially offset by higher media and other SG&A expenses, and higher input costs.

Slide 23 summarizes our joint venture results in the second quarter. Cereal Partners Worldwide posted another strong quarter of top line growth, with constant currency net sales up 7%. CPW's net sales growth was broad-based, led by Latin America, Russia, Turkey and Australia. Häagen-Dazs Japan net sales were up 12% in constant currency, including innovation-driven volume growth and positive price/mix in the quarter. Second quarter combined after-tax earnings from joint ventures increased 46% to \$36 million, primarily reflecting the strong net sales growth at both CPW and Häagen-Dazs Japan.

Turning to total company margin results, second quarter adjusted gross margin increased 20 basis points, primarily driven by positive price/mix, partially offset by higher input costs, including the costs to secure incremental capacity, and the comparison to the prior year period that included favorable manufacturing leverage.

Adjusted operating profit margin in the quarter decreased 10 basis points, driven by higher SG&A expenses, including a double-digit increase in media spending, partially offset by the adjusted gross margin expansion I just mentioned.

The second quarter adjusted operating profit margin result was somewhat ahead of our expectations, for two reasons: first, we were able to service more demand from our internal capacity than we initially expected; and second, we saw some of our external manufacturing needs and other operational costs shift into the second half.

Slide 25 summarizes other noteworthy Q2 income statement items:

- Unallocated corporate expenses including certain items affecting comparability increased \$19 million in the quarter.
- Net interest expense decreased \$19 million from a year ago, driven by lower average debt levels.
- The adjusted effective tax rate for the quarter was 22.3%, compared to 21.9% a year ago, primarily driven by non-recurring discrete benefits in Fiscal '20, partially offset by favorable earnings mix by market in Fiscal '21.
- And average diluted shares outstanding were up 1%.

Our Fiscal '21 first-half results are summarized on Slide 26. Net sales of \$9 billion were up 8%. Organic net sales were also up 8%, including growth from organic volume and positive organic price/mix. Year-to-date adjusted operating profit of \$1.7 billion increased 13% in constant currency, primarily driven by higher net sales, partially offset by higher input costs and higher SG&A expenses, including a double-digit increase in media investment. Adjusted diluted earnings per share totaled \$2.06 in the first half and grew 17% in constant currency, driven by higher adjusted operating profit, higher after-tax earnings from joint ventures, and lower net interest expense, partially offset by higher diluted shares outstanding and a higher adjusted effective tax rate.

Turning to the balance sheet and cash flow, first-half operating cash flow totaled \$1.4 billion, down 2% from the first half of last year, primarily driven by changes in the inventory and the timing of accounts payable. Our core working capital decreased \$331 million from a year ago, primarily driven by improvements in accounts payable. Capital investments through six months of \$226 million increased \$68 million from a year ago, including higher spending on growth capital, and we paid \$618 million in dividends in the first half.

Turning to our expectations for the balance of Fiscal '21, we've outlined some key assumptions on Slide 28. We expect the pandemic will drive continued elevated consumer demand for food-at-home, relative to pre-pandemic levels, through the remainder of fiscal year. We expect third quarter demand trends to be generally consistent with recent months, due to the ongoing virus concerns in many markets around the world, and we expect to continue to invest in our brands and capabilities to generate profitable growth over the long term and throughout the pandemic.

Based on these assumptions, we expect to generate continued strong top and bottom line growth in the third quarter, with organic net sales growth roughly similar to the second quarter's growth rate and an adjusted operating profit margin in line with the prior year.

As we look further out, we expect fourth quarter net sales to be above pre-pandemic levels, though below Q4 of Fiscal '20, due to the difficult comparison in the year-ago period, when net sales grew 21% behind the initial pandemic-driven surge in at-home demand, the 53rd week, and the extra month of results in our Pet segment.

Finally, due to first-half adjusted operating profit margin results that were somewhat ahead of our expectations, we now anticipate our full year Fiscal '21 adjusted operating profit margin will be in line or better than last year.

Let me now turn it back to Jeff for some closing remarks.

Jeff Harmening

Thanks, Kofi.

I'll close with a few thoughts. I'm proud of how the entire General Mills team continues to execute and deliver strong performance amid a challenging and dynamic environment. We're focused on what we can control, meeting our consumers' needs and winning across our markets. I am confident that we're taking the right actions to ensure we continue to win, both today and for the long term.

I want to 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 Central Time this morning, and will be available for replay at generalmills.com.