General Mills

Fiscal 2021 Fourth Quarter Earnings

June 30, 2021

CORPORATE PARTICIPANTS

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PRESENTATION

Jeff Siemon

Good morning. Thank you for listening to our prepared remarks on General Mills' fourth quarter and full year Fiscal 2021 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. 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'll find our press release I 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 you over to Jeff.

Jeff Harmening

Thank you, Jeff, and good morning, everyone.

During today's presentation, I will provide a summary of our fourth quarter and full-year performance, share how we are reshaping our portfolio and organizational structure to drive stronger and more profitable growth, and outline our priorities and guidance for Fiscal '22. Then Kofi will walk through our Fiscal '21 financial performance in more detail as well as provide some more color on the assumptions that frame our expectations for Fiscal '22.

Let's begin with today's key messages on Slide 4. Since the onset of the pandemic, we have seen dramatic changes in consumer behavior. These changes, including how we shop, where we eat and work, how often we travel and more, have required us to adapt. Throughout this time, we focused on what is most important: prioritizing the health and safety of our people and our consumers above all else. I'm proud of our team's focus and perseverance not only to deliver for our consumers and our communities, but also to achieve our Fiscal '21 priorities.

Now as we emerge from the pandemic, it's clear that consumer behaviors are not returning to what they once were. The rapid growth in e-commerce, the likelihood that many office workers will have some degree of remote work and the increased appreciation consumers have gained for cooking and baking over the past 18 months will have lasting impacts and will create opportunity. Simply put, we are ending one period of significant consumer disruption only to start another.

As we look ahead to our Fiscal '22, we will continue to execute our Accelerate strategy, focusing on three priorities that will be critical to our success: continuing to compete effectively, successfully navigating the dynamic cost environment, and executing our portfolio and organizational reshaping efforts without disruption.

Slide 5 summarizes our headline financial performance metrics for Fiscal 2021. We delivered strong performance for the full year, including 4% organic net sales growth, 2% constant currency growth in adjusted operating profit, and 4% growth in adjusted diluted EPS in constant currency, driven by our ability to meet the strong demand for food at home, find new solutions for our away-from-home customers and outperform our competition.

Our fourth quarter results were slightly ahead of our expectations, though down versus last year's unprecedented fourth quarter that included the initial surge in at-home food demand, the fifty-third week for our legacy segments and an extra month of results for our Pet segment. Relative to Fiscal '19's fourth quarter, which did not have the same unusual comparisons, our two-year compound growth was up 4% on organic net sales, up 1% on constant currency adjusted operating profit, and up 4% on constant currency adjusted diluted EPS. It is absolutely clear from these results that General Mills will exit the pandemic a stronger company than we entered it. I am extremely proud of our team for their tireless work in making that happen.

Looking back at the year, we accomplished what we set out to do: competing effectively everywhere we play, driving efficiency to fuel investments in our brands and capabilities, and reducing our debt leverage. Our consistent focus on these priorities shaped our decisions throughout the year and were instrumental in driving our financial performance. Let me share briefly a few highlights of our Fiscal '21 performance on each of these priorities.

As we outlined back in February, one of the focus areas of our Accelerate strategy is to win in our eight core markets and five global platforms where we believe our competitive advantages will drive differential growth. Our efforts in these areas are paying off. We delivered broad-based net sales growth in Fiscal '21 in our largest markets, including the U.S., Canada, France, the U.K., China and Brazil. We gained market share in all five of our global platforms, including our fourth consecutive year of share growth in U.S. cereal; good gains in snack bars, pet food and ice cream; and more than a point of share growth for Old El Paso Mexican food. Relative to the pre-pandemic period, we've grown household penetration and increased repeat rates across seven of our top 10 U.S. categories. This gives us confidence that as consumers transition to their new normal, they will continue to seek out the General Mills brands they know and trust.

We also successfully achieved our second priority, which was to drive efficiency to fuel investments in our brands and capabilities. We delivered another strong year of Holistic Margin Management productivity savings, at 4% of cost of goods sold, which enabled us to increase brand-building investments even as we dealt with higher costs to service elevated demand. In fact, we increased our media investment at an 11% compounded rate over the past two years, including strong support for differentiated campaigns on brands such as Cheerios, Nature Valley, Old El Paso, BLUE, Häagen-Dazs, Pillsbury and many more.

We also continue investing in strategic capabilities that will be critical to our future success, including digital, data and analytics, e-commerce, HMM and strategic revenue management. These investments are already paying off, as evidenced by our continued outperformance in e-commerce, which now makes up 11% of our worldwide net sales. Our e-commerce net sales were up 45% in Fiscal '21, and we continue to see our brands holding higher market shares online than in brick-and-mortar outlets.

Finally, our strong financial discipline allowed us to further reduce our leverage to 2.9 times net debt to Adjusted EBITDA at the end of Fiscal '21. With our balance sheet in a solid position, we were able to activate each of our long-term capital allocation priorities during Fiscal '21, including continuing healthy levels of capital investment in the business to fuel growth and drive HMM cost savings; increasing our quarterly dividend rate by 4% per share in the second quarter; announcing in May the acquisition of the Tyson pet treats business, which will be our first acquisition since the addition of Blue Buffalo in Fiscal '18; and resuming share repurchase activity by buying back $301 million of stock in the fourth quarter. Looking ahead, we'll continue to use our balance sheet as a strategic asset by investing to improve our growth profile while returning cash to shareholders through dividends and share repurchases.

In addition to delivering on our key priorities in Fiscal '21, we also announced a few important actions that will be critical to enhancing our future growth, in line with our Accelerate strategy. They include two portfolio reshaping transactions that will enhance the growth and margin profile of our enterprise.

First, as we mentioned on our Third Quarter Earnings call, we entered into a memorandum of understanding in March to sell our interest in our European Yoplait operations to Sodiaal, a leading French dairy cooperative and our current joint venture partner in the business, in exchange for full ownership of Yoplait Canada and a reduced royalty on our North American yogurt licenses. The work on this proposed transaction is going as planned and we remain on track to sign a definitive agreement and close the sale by the end of Calendar 2021.

More recently, in May, we reached an agreement to acquire Tyson's pet treat business, strengthening our position in the fast-growing U.S. pet food category. The Tyson portfolio, which includes the Nudges, True Chews and Top Chews brands, is the leader in natural meat treats and is highly complementary to our existing pet treat portfolio under the BLUE brand. Annual net sales for the Tyson pet treat business totaled more than $240 million and have grown at nearly a 20% compound rate over the past three years. We see significant opportunities to drive future growth by expanding awareness and availability of these products and we expect to unlock production and other cost synergies with the rest of our Pet business, all of which will result in substantial value creation. We have now cleared nearly all of the key closing conditions for this transaction, including HSR review, so we expect the deal to close shortly.

These two transactions represent significant steps in our effort to reshape our portfolio to drive faster and more profitable growth. At the same time, there is still more work to do, and we'll look for additional opportunities to further reshape our portfolio through acquisitions and/or divestitures.

In addition to our portfolio actions, we recently announced a significant initiative to reshape our organization to better align with our Accelerate strategy and ensure we can deliver on the consumer behavior changes that were established or accelerated during the pandemic. We're making meaningful changes to simplify and streamline parts of our structure to bring our functions and capabilities closer to the business.

At the same time, we're establishing a new Strategy & Growth organization focused on advancing our Accelerate strategy, with responsibility for areas including M&A, strategy, consumer insights, brand experience, strategic revenue management and our 301 Inc. minority investment arm.

This change is not simply a cost-cutting exercise; it's allowing us to free up resources to continue to invest in growth-facing capabilities. Our priority areas include digital, data and analytics, e-commerce, SRM, strategy, M&A and other capabilities that are critical to our future success. Overall, we expect these changes to our portfolio and organization will result in stronger, more profitable growth, enabling us to better deliver on the goals of our Accelerate strategy.

As we turn to Fiscal ’22, let me reiterate our three key priorities that will be critical to our success this year, outlined on Slide 12.

First, we will continue to compete effectively, prioritizing our core markets, global platforms and local gem brands, and leveraging our brand-building, innovation, strategic capabilities and force for good work to deliver competitive performance. Second, we will successfully navigate the dynamic cost environment, leveraging our HMM productivity program, SRM pricing actions and other efficiency efforts to address input cost inflation and other cost headwinds. Third, we will execute our portfolio and organization reshaping actions without disrupting our base business.

We know we must meet consumers where they are and with the products they want to be successful in Fiscal ’22. Our key initiatives for this year are aligned with our Accelerate strategic pillars, including continued investment behind bold, brand-building campaigns. For example, Cheerios is celebrating 80 years of putting heart-healthy oats on millions of breakfast tables every morning by reintroducing its original name and packaging: CheeriOats. The retro, limited-edition box will be hitting store shelves in July and we’ll be asking fans to enter into a contest by sharing their favorite Cheerios memories on social media. Also, our Häagen-Dazs “Mix It Up” campaign is live across Europe and Asia now, highlighting the combination of contrasting flavors and textures to create an elevated taste experience. Finally, as our Tastefuls cat food line enters its second year, we’re making sure pet parents know about its superior taste with an integrated “One Taste Is All It Takes” campaign.

We’re also investing in exciting and relevant renovation and innovation news for consumers. For example, we’re launching new flavors and textures with Häagen-Dazs Twist and Crunch in Asia & Latin America, and Nature Valley Soft Baked Muffin Bars in the U.S. We’re doubling down on successful launches from last year with new additions to those product lines, including new multipacks on Ratio Keto yogurt and kits for our Old El Paso Tortilla Pockets in Europe. Increasingly, these initiatives are also weaving in our force for good efforts, including new Annie’s compostable Mac ‘n’ Cheese cups, which you can find on shelves today.

The next few months will be especially critical for our brands as the world transitions to a new normal. As consumers reestablish routines, it’s important that we deliver solutions for lunchtime and away-from-home snacking, leveraging trusted brands like Nature Valley, Gogurt, Dunkaroos and Annie’s.

We will also continue investing in strategic capabilities across our business in Fiscal ’22 to better enable us to compete, including digital, data and analytics, strategic revenue management, connected commerce and our holistic margin management program. Fiscal ’22 is expected to bring the highest level of input cost inflation that we’ve seen in 10 years. The combination of our HMM productivity program and broad-based SRM initiatives will be required to offset this level of inflation and protect our profitability in Fiscal ’22. In fact, we’ve taken SRM actions across the vast majority of our categories and in all our core markets around the world, leveraging all four elements of our SRM toolkit: list pricing, mix management, pack-price architecture changes and promotion optimization.

In addition, as we see consumers increasingly move online, we are ramping up our connected commerce efforts, with some exciting initiatives coming out this year. For example, our Häagen-Dazs China business, we’re expanding on successful connected commerce initiatives that we kicked off in Fiscal ’21, leveraging digital engagement, our shops network and other omnichannel interactions to strengthen our connections with consumers and accelerate our growth. In our Pet segment, we are launching a new initiative later this year that will allow pet parents to connect with each other and with the BLUE brand in a differential way. We'll continue to leverage our existing assets, including Box Tops for Education, Pillsbury.com and bettycrocker.com, to cultivate a connected ecosystem for consumers online.

With clear priorities and a strong set of plans, we've outlined goals for Fiscal '22 that we expect will represent competitive performance in the context of a changing demand and cost environment. We expect that consumer demand for food at home in Fiscal '22 will decline from elevated Fiscal '21 levels as more vaccines are distributed, offices and schools reopen, and the broader economic recovery continues.

Conversely, we expect away-from-home food demand to be above last year, but we do not expect either at-home or away-from-home demand to return to pre-pandemic levels. With roughly 85% of our net sales in at-home food occasions, we anticipate these dynamics will result in lower aggregate consumer demand in our categories in Fiscal '22. With this demand outlook, we expect organic net sales to decline 1% to 3%; we expect adjusted operating profit to decline 2% to 4% in constant currency; and we expect adjusted diluted earnings per share to range between flat and down 2% from the base of $3.79 earned in Fiscal '21; and we expect free cash flow conversion to be approximately 95% of adjusted after-tax earnings.

Importantly, when compared to pre-pandemic Fiscal '19 levels, the midpoints of our Fiscal '22 guidance ranges equate to three-year compounded growth rates of approximately 2%, 2% and 5% respectively for organic net sales, constant currency adjusted operating profit and constant currency adjusted diluted EPS. This level of top-line growth represents a meaningful step-up from our performance in the prior three years ending in Fiscal '19.

I want to be very clear that I am excited about where General Mills is today and where we are headed. We view Fiscal '22 as a continuation of the momentum we built in Fiscal '21 by making food the world loves and needs. We will emerge a stronger Company with exciting opportunities to accelerate growth and create sustainable values for our shareholders.

With that, I pass it over to Kofi.

Kofi Bruce

Thanks, Jeff, and hello, everyone. I'll be providing more details on our fourth quarter financial performance, starting with our enterprise results on Slide 17.

Net sales of $4.5 billion were down 10%, including the impact to reported net sales from the fifty-third week in last year's Q4. Organic net sales were down 6% in the quarter, reflecting a tough comparison to the 16% organic net sales growth a year ago when we saw the initial surge in pandemic-driven at-home demand as well as the extra month of results in our Pet segment.

Adjusted operating profit decreased 18% in constant currency, driven primarily by lower net sales and higher input costs, partially offset by lower SG&A expenses. Adjusted diluted earnings per share totaled $0.91 in the quarter and were down 19% in constant currency, driven by lower adjusted operating profit, partially offset by a lower adjusted effective tax rate.

Given the unusual nature of last year's fourth quarter, we've also included a two-year compound growth rate across these measures, which reflect the comparison against pre-pandemic levels in Fiscal '19. On a two-year compound growth basis, fourth quarter organic net sales were up 4%, adjusted operating profit increased 1% in constant currency, and adjusted diluted EPS grew 4% in constant currency.

Slide 18 summarizes the components of our net sales growth in the fourth quarter. Organic net sales were down 6%, driven by lower organic pound volume. Foreign exchange added two points of growth in the quarter, and the comparison to the fifty-third week last year was a five-point headwind to net sales.

Now let's turn to segment results, beginning with North America Retail on Slide 19. Fourth quarter organic net sales decreased 13%, reflecting the comparison against the pandemic-driven surge in consumer demand in Q4 of last year. On a two-year compound growth basis, fourth quarter organic net sales were up 6%. Fourth quarter constant-currency segment operating profit was down 31%, driven by lower net sales and higher input costs, including fixed cost deleverage in the supply chain. For the full year, North America Retail organic net sales were up 4%, including broad-based growth in U.S. Meals & Baking, Canada, U.S. Cereal, and U.S. Yogurt. We grew or held market share in roughly 50% of U.S. retail sales, and we drove strong share gains in Canada.

Fiscal '21 segment operating profit was flat to last year, driven by input cost inflation, costs to secure incremental capacity and higher media and other SG&A expenses, offset by HMM cost savings and higher volume. Segment operating profit margin of 23.9% was 100 basis points ahead of the pre-pandemic result in Fiscal '19.

Organic net sales for our Pet segment declined 20% in the fourth quarter, driven by the comparison to the extra month of results in last year's Q4 as we aligned the segment to our May fiscal year-end, as well as the comparison against the pandemic-driven stock-up purchases we saw a year ago. As you can see on the chart on Slide 20, Q4 of Fiscal '20 was a significant outlier in terms of net sales, and except for that quarter, net sales for our Pet segment have generally been on a strong upward trend. Importantly, retail sales for BLUE in the fourth quarter were up mid-teens in measured channels, reflecting the underlying strength of our business. On the bottom line, the Pet segment's fourth quarter operating profit declined 24%, driven by lower volume and higher input costs, partially offset by lower SG&A expenses and positive price mix.

For the full year, Pet's organic net sales were up 2%, driven by the comparison to the extra month of results in Fiscal '20. On a two-year compound growth basis, Pet segment organic net sales were up 10%. In Fiscal '21, BLUE generated double-digit retail sales growth and grew market share in measured channels. The brand also drove further household penetration gains and increased pet parent awareness with our omnichannel growth model. Full-year operating profit for the Pet segment was up 6%, primarily driven by higher net sales and lower SG&A expenses, partially offset by higher input costs. Segment operating profit margin was up 100 basis points to 24% of net sales.

Turning to Convenience Stores & Foodservice segment results on Slide 21, fourth quarter organic net sales grew 33%, primarily driven by the comparison to significantly reduced away-from-home food demand a year ago. We have seen sequential improvement in consumer traffic to away-from-home food channels, including schools, restaurants and lodging, throughout Fiscal '21.

On a two-year compound growth basis, Q4 organic net sales declined 3%. Fourth quarter segment operating profit increased 143% in the quarter, driven by higher net sales and lower SG&A expenses. For the full year, Convenience Stores & Foodservice organic net sales declined 3%, driven by reduced demand in away-from-home food channels amid the pandemic. Segment operating profit was down 9%, primarily driven by lower net sales and higher input costs, partially offset by lower SG&A expenses.

In Europe & Australia, fourth-quarter organic net sales declined 2%, driven by the comparison to pandemic-driven increased at-home food demand a year ago. On a two-year compound growth basis, fourth quarter organic net sales grew 1%. Fourth quarter segment operating profit decreased 16% in constant currency, driven by higher input costs and lower net sales, partially offset by lower SG&A expenses. For the full year, organic net sales increased 3%, primarily driven by Old El Paso Mexican food and Häagen-Dazs ice cream. We competed effectively in Fiscal '21, growing market share in ice cream and snack bars. Full-year segment operating profit increased 24%, primarily driven by higher net sales and lower SG&A expenses, partially offset by higher input costs.

In Asia & Latin America, organic net sales grew 22% in the fourth quarter, due to pandemic-driven at-home food demand in Latin America and improved away-from-home demand in Asia, driving strong growth in Häagen-Dazs shops. On a two-year compound growth basis, organic net sales increased 7% in the fourth quarter. Segment operating profit totaled $23 million compared to a loss of $24 million a year ago, driven by higher net sales and lower SG&A expenses, partially offset by higher input costs. Full-year organic net sales were up 15% in Fiscal '21.

Net sales growth was broad-based, including double-digit growth in Latin America, driven by strong at-home demand for Yoki meals and snacks and Kitano seasonings in Brazil amid the pandemic. Net sales were also up double-digits in Asia in the full year, led by China and India, with notable growth for Häagen-Dazs ice cream and Betty Crocker dessert mixes. Full-year segment operating profit was up $67 million to $86 million, primarily driven by higher net sales and favorable foreign currency exchange, partially offset by higher input costs.

Slide 24 summarizes our joint venture results. In the fourth quarter, constant currency net sales for Cereal Partners Worldwide were down 2%, reflecting the comparison to elevated pandemic-driven demand a year ago. Häagen-Dazs Japan net sales were up 12% in constant currency in the quarter, driven by successful new product launches and strong growth on the core. For the full year, CPW constant currency net sales were up 5%, driven by broad-based volume growth led by Brazil, Turkey, Russia and Mexico. Häagen-Dazs Japan net sales were up 6% in constant currency, primarily driven by positive category trends and strong new product offerings. Fiscal '21 combined after-tax earnings from joint ventures increased 29% to $118 million, driven by net sales growth for both CPW and Häagen-Dazs Japan.

Turning to total company margin results, fourth quarter adjusted gross margin and adjusted operating profit margin were roughly in line with our expectations at down 160 basis points and down 140 basis points respectively, driven primarily by fixed cost deleverage in the supply chain as we compared against significant volume leverage a year ago during the initial surge in pandemic-related demand. For the full year, adjusted gross margin decreased 40 basis points, primarily driven by input cost inflation, costs to secure incremental capacity and higher logistics costs, partially offset by HMM cost savings and fixed cost leverage in the supply chain. Fiscal '21 adjusted operating profit margin increased 10 basis points, driven by favorable price mix and lower admin expenses, partially offset by higher input costs.

Slide 26 summarizes other noteworthy Q4 income statement items. Unallocated corporate expenses excluding certain items affecting comparability decreased $53 million in the quarter, driven by lower compensation and benefits expenses. Fourth quarter net interest expense decreased $16 million from a year ago, driven by lower rates and lower average debt balances. The adjusted effective tax rate for the quarter was 18.5% compared to 19.1% a year ago, primarily driven by certain nonrecurring discrete tax benefits. And average diluted shares outstanding were flat in the quarter, with our share repurchase activity offsetting the impact of option exercises.

Our full-year Fiscal '21 results are summarized on Slide 27. Net sales of $18.1 billion were up 3%, driven by higher organic net sales and one point of favorable foreign currency exchange, partially offset by a two-point headwind from the extra week of results in last year's fourth quarter. Organic net sales increased 4%, reflecting strong execution and broad-based market share gains amid elevated at-home food demand. Full-year adjusted operating profit of $3.2 billion increased 2% in constant currency, primarily driven by higher constant currency adjusted gross profit dollars, partially offset by higher SG&A expenses, including increased investment in media and capabilities. Fiscal '21 adjusted diluted earnings per share totaled $3.79 and grew 4% in constant currency, driven by higher adjusted operating profit, lower net interest expense and higher after-tax earnings from joint ventures, partially offset by a higher adjusted effective tax rate and higher average diluted shares outstanding.

On a two-year compound growth basis, relative to pre-pandemic levels in Fiscal '19, organic net sales were up 4%, adjusted operating profit increased 4% in constant currency, and adjusted diluted EPS grew 8% in constant currency.

Turning to the balance sheet and cash flow. Full-year operating cash flow totaled $3 billion, down 19% from last year, primarily driven by a change in current assets and liabilities, partially offset by a change in deferred income taxes and an increase in net earnings. As a reminder, operating cash flow in Fiscal '20 included timing benefits related to pandemic-driven volume increases in last year's fourth quarter, which we expected to unwind in Fiscal '21. Relative to Fiscal '19's pre-pandemic result, Fiscal '21 operating cash flow was up 6%.

Our core working capital balance increased 6% from a year ago, driven by an increase in inventory balances, partially offset by an increase in accounts payable. Capital investments of $531 million increased $70 million from a year ago, including higher spending on growth capital. Full-year free cash flow totaled $2.4 billion, and free cash flow conversion was 103% for the year.

Total cash returned to shareholders increased 29% to $1.5 billion, including $1.2 billion in dividends and $301 million in share repurchases. As Jeff said earlier, we ended the year with a leverage ratio of 2.9 times net debt to Adjusted EBITDA.

Turning to our expectations for Fiscal '22, we've outlined our key top-line assumptions on Slide 29. One of the largest factors impacting our performance this year will be the relative balance of at-home versus away-from-home demand as consumers adjust to the new normal. As Jeff mentioned, we continue to expect to compete effectively in Fiscal '22, within the context of this evolving demand picture. While the environment remains highly uncertain, we've provided our current assumptions for consumer demand across our key business segments. We expect our North America Retail and Europe & Australia segments will see headwinds from lower consumer demand for food at home relative to Fiscal '21, though we expect that demand will remain above pre-pandemic levels.

Conversely, we expect our Convenience Stores & Foodservice segment to benefit from increased demand for away-from-home food relative to Fiscal '21, though we don't expect demand to fully recover to pre-pandemic levels. Finally, we anticipate demand for our Pet and Asia & Latin America segments will be up in Fiscal '22, on top of growth in the prior year. In aggregate, that translates into consumer demand headwinds across roughly 70% of our net sales base, with tailwinds on the remaining 30% of our net sales.

Slide 23 summarizes our other key financial assumptions in Fiscal '22. On adjusted operating profit, we expect headwinds, including input cost inflation, lower volume, supply chain deleverage and continued growth investments in our global capabilities. Our current assumption for input cost inflation across our total cost of goods sold is approximately 7%. This includes logistics costs up double-digits, raw and packaging materials up high single-digits and manufacturing costs up low single-digits. We are currently covered on roughly half of our raw and packaging material requirements for Fiscal '22.

On the other hand, we expect tailwinds to adjusted operating profit will include HMM cost savings of roughly 4% of cost of goods sold, positive price mix from our SRM actions, lower administrative expenses reflecting our streamlined organizational structure and a reduction in COVID-related expenses including external manufacturing and health and safety costs. While these items reflect our current assumptions, it is important to acknowledge that this is a highly dynamic environment, and we'll need to stay close to the cost picture and ensure we're taking appropriate actions based on how the situation evolves over the course of the year.

From a phasing standpoint, we expect adjusted operating profit to be down in the first half of our Fiscal '22 and up in the second half, due to the comparison to the prior year, which saw notably higher adjusted operating profit in the first half, and due to the timing of net price realization relative to inflation. Remember that we posted a first quarter adjusted operating profit margin of 19.1% in Fiscal '21, which was nearly 200 basis points ahead of our full-year result, driven by elevated demand and supply chain leverage. Largely due to this difficult comparison, we expect constant currency adjusted operating profit to be down double-digits in the first quarter of Fiscal '22.

Looking below operating profit, we expect net interest expense to total approximately $370 million. We anticipate an adjusted effective tax rate of 21% to 22%, and we expect to reduce our average diluted shares outstanding by 1% in Fiscal '22. Finally, we expect to fund capital investments of approximately 3.5% of net sales.

Based on these assumptions, Slide 31 reiterates the Fiscal '22 outlook that Jeff shared earlier. I'll note that this outlook does not include any impact from the proposed Yoplait Europe divestiture or the Tyson pet treats acquisition, since those transactions have yet to close.

Let me close with a few thoughts. The General Mills team has risen to the challenges presented by the pandemic, making food the world loves and needs. We achieved our Fiscal '21 priorities and we're back to fully leveraging all our capital allocation tools, including dividend growth, strategic acquisitions and share repurchases. As we look ahead, we expect to emerge from the pandemic a stronger company, well positioned to drive long-term sustainable growth and shareholder value as we execute our Accelerate strategy.

Thank you for your time this morning. This concludes our prepared remarks. I invite you to listen to our live Q&A webcast, which will begin at 8:00 a.m. Central Time this morning and will be available for replay at GeneralMills.com.