



General Mills

First Quarter Fiscal 2022 Earnings

September 22, 2021

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 listening to our prepared remarks on General Mills' First Quarter 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. 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 that posted this morning, along with a copy of the presentation and a 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 kick off our remarks by summarizing today's key messages. General Mills delivered first quarter financial results that were above our expectations in a very dynamic and challenging operating environment. I'm pleased to say that we're delivering on our Fiscal '22 priorities. We remain focused on competing effectively, successfully navigating the challenging supply chain environment, and executing our portfolio and organization reshaping actions without disruption.

Amid these near-term opportunities and challenges, we continue to advance our Accelerate strategy. I'll share some examples today of further progress we've made in reshaping our portfolio, expanding our connected commerce capabilities and being a force for good. Finally, as we communicated two weeks ago, we now expect to deliver full year Fiscal '22 financial results at the higher end of our previous announced guidance ranges.

We expected this year to be dynamic, and that has certainly been the case through the first quarter. The global consumer landscape continues to evolve as we face new variants and see another broad rise in COVID case rates. While the magnitude varies by market and by month, what has remained constant is that at-home food demand remains notably elevated around the world, relative to pre-pandemic levels.

The supply chain environment also remains dynamic and challenging. We, like the rest of the industry, are facing rising input cost inflation globally. Our North American market basket has reached its highest point in recent history, and we're seeing significant inflationary pressures across our international markets as well. We now expect total input cost inflation in Fiscal '22 will be roughly 7% to 8%, up from our prior estimate of 7%, driven by volatile weather, supply and demand imbalances, and constrained transportation and labor markets.

To add to the challenge, industry-wide shortages in the labor market, in particular in North America, are impacting not only our manufacturing facilities and distribution network, but also raw material supply and external production capacity. As a result, we're facing service challenges and elevated costs. Within this context, I'm proud of the way the General Mills team is competing, leveraging the strength of our brands and our advantaged supply chain and sales capabilities to meet customer and consumer needs as well or better than our competition.

Slide 6 summarizes our financial performance for the first quarter. We delivered organic net sales growth of 2%, while adjusted operating profit and adjusted diluted EPS were both down 2% in constant currency. Remember that these results compared against double-digit growth across each of these metrics a year ago. And on a two-year compound basis, relative to pre-pandemic levels, our results were up 6% on organic sales, up 9% on adjusted operating profit and up 12% on adjusted diluted EPS. These results exceeded our expectations in each of our five operating segments, reflecting our strong execution and elevated demand.

Back in June, we outlined three priorities that will be critical for our success in Fiscal '22. First, we will continue to compete effectively by executing our Accelerate strategy. Second, we will successfully navigate the dynamic supply chain environment with a focus on managing both customer service and margins. Third, we will execute our portfolio and organization reshaping actions without disrupting our base business.

I'm pleased to say that we're off to a strong start in each of these areas. Let me show you a few examples of where we're delivering and driving results across these three priorities.

We competed effectively yet again in Q1, holding or growing market share in 66% of our priority businesses. This includes the eleventh consecutive quarter of share growth in U.S. Cereal, an 80 basis point gain in the quarter and nearly five full share points in the past three years in Refrigerated Dough in the U.S., 40 basis points of share growth in Nielsen-measured U.S. Pet Food channels and a 120 basis point gain in Global Mexican Food. This solid performance was a continuation of a multiyear improvement we made in our end market competitiveness. In fact, we've gained or held share in more than 60% of our priority businesses in each for the past three Fiscal Years. These results have been founded on great execution on the fundamentals, in particular, more compelling brand building and innovation supported by stronger levels of investment.

As I mentioned earlier, the current operating environment is as dynamic as we've experienced in at least the last decade, resulting in significant input cost inflation, labor shortages and challenges servicing the business. In the face of these challenges, we've stepped up our agility and responsiveness to ensure our customers and consumers can access the food they need, while taking action to manage costs and protect our margins.

For example, as we began to see labor shortages affecting the supply chain, we quickly reinstituted control tower meetings that we had established during the height of the pandemic to better align resources and enable faster decision-making. We're adapting our supply chain network to manage labor shortages. For instance, we're working with suppliers to extend lead times, use supplemental labor and encouraging more full-pallet orders. We're providing holistic incentives to encourage presenteeism in our logistics and manufacturing facilities.

Overall, while our service levels aren't where we'd like them to be, we believe our advantaged supply chain is holding up as well, or better, than our competitors.

To address elevated costs, our first line of defense is always our HMM productivity program. This year, we expect to generate HMM cost savings of roughly 4% of cost of goods sold. We've also stepped up our significant and broad-based SRM efforts across our portfolio, including new actions we've announced since our Q4 earnings call. We're starting to see those actions translate into increases at the shelf. In U.S. Retail, our average unit price in Nielsen-measured channels was up mid-single digits in Q1 and accelerated throughout the quarter. We saw a similar trend in Pet, where we're seeing shelf prices move in our international markets as well.

It's important to note that we only saw a partial benefit of these pricing actions in Q1, and we'll see a more significant benefit in our results in Q2 and beyond. We'll stay close to the cost picture, and if we see more cost headwinds come our way, we'll be prepared to take additional actions to protect our profit outlook.

Shifting gears to portfolio reshaping, we completed two major milestones in the first quarter. On July 6, we closed on the acquisition of the Nudges, True Chews and Top Chews dog treats brands from Tyson Foods, strengthening our position in the fast-growing U.S. Pet Food category. Dog Treats is the second largest segment in Pet Food, at \$7 billion in retail sales, and growing at a high single-digit rate. Our newly acquired brands are the leaders in natural meat treats, with differentiated natural products that are aligned to our True BLUE promise, no corn, wheat or soy, no artificial ingredients, and meat as the first ingredient, making them a great fit in our portfolio.

We are now two months into the business integration and we're more confident than ever about the growth and value creation opportunities ahead. In fact, retail sales for Nudges, True Chews and Top Chews were up 20% in Nielsen-measured outlets in the first quarter, and we haven't even begun to plug them into our Blue Buffalo go-to-market model.

With our expanded portfolio, we are now the leading natural player in the Dog Treats segment, and we've strengthened our position as the number one overall natural pet food brand in the category. Our Pet segment now generates \$2 billion in net sales, with attractive margins and significant growth ahead.

The second piece of portfolio reshaping news in Q1 relates to the divestiture of our interest in our European Yoplait operations, which we first announced back in March. We signed a definitive agreement on August 27 formalizing the terms of the transaction with Sodial. With the agreement in hand, our teams are moving at full speed to close the transaction by the end of Calendar 2021. Overall, 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 continue to look for additional opportunities to further reshape our portfolio through acquisitions and/or divestitures.

In addition to our portfolio reshaping actions, we continued to advance our Accelerate strategy through investments in our Connected Commerce capability. Over the last year, you've heard us talk about the concept of Connected Commerce, which is about building brands across both physical and digital worlds. Connected Commerce is powered by data, digital capabilities, measurement and execution to enable

General Mills to be part of the consumer journey, creating strong one-to-one relationships and drive differential growth for our brands.

One of our first significant initiatives under the Connected Commerce banner was the digitization of our Box Tops for Education program. By moving Box Tops to a mobile app platform, we've saved schools the time and hassle of collecting and shipping physical clips, increased the number of participating schools, and made it easier for consumers to find and support schools in need, and create a unique one-to-one relationship with our consumers. These relationships provided us with receipt-level first-party data which we can use, with appropriate consumer privacy safeguards, to spot patterns, experiment, scale up winning tests and launch new capabilities.

For the back to school season this year, we've launched a new Box Tops campaign entitled Unlock Brighter Futures, focused on unlocking the door to more opportunities for families and school communities to get what is needed for every child to achieve their potential. This campaign is building awareness of the Box Tops mobile app while strengthening our role as a force for good in our communities.

Another example of how we're strengthening our Connected Commerce capability across General Mills is our new mobile platform, Buddies, by Blue Buffalo. Buddies allows pet parents to connect to a community of other pet parents and pet experts, consolidates information about their pet across their whole family and provides them with valuable rewards. This new platform allows us to meet pet parents where they are and strengthen our engagement with them throughout their pet's life. Buddies is not just an app, it's a relationship centered on the moments that matter to pet parents.

We're also driving Connected Commerce in our Häagen-Dazs business in China, where we're using technology to contemporize the consumer experience. The Häagen-Dazs Smart Shop creates an ecosystem and provides consumers with a connected, digital experience, both in-store and virtually, via a mobile app and integration with WeChat. The entire consumer journey, from finding a store, browsing the digital menu, placing an order, payment and signing up for a loyalty program can now take place on a mobile phone. The Smart Shop is helping us engage with new, younger Häagen-Dazs consumers, and the data it's generating enables us to optimize our personalized marketing efforts and refine our promotions.

Connected Commerce is an important way we will boldly build our brand in the future. We're encouraged by our first steps to create a differentiated Connected Commerce capability, and we know there's much more to do, so we'll continue to invest and advance in this space.

At General Mills, it's never just been about the food we make, it's also about how we make it. That's why we innovate and renovate our products to meet consumer needs, and why we're advancing regenerative agriculture to support the soil from which our ingredients are grown. We believe being a force for good is not just good for the world, it's also good for business. That's why being a force for good is a central element of our Accelerate strategy.

Because of its importance to our strategy, and with the increased interest we hear from you, our investors, on this topic, we plan to highlight different aspects of our force for good work on our earnings calls this year. Over the course of the year, we'll highlight examples that touch on our four priority areas: regenerating our planet, improving food security, protecting our people and strengthening our communities. Given that we recently passed the one-year anniversary of our racial equity commitments, we wanted to take a moment to provide an update on our efforts in the areas of diversity, equity and inclusion.

General Mills has a long history of supporting this work, and while we are very proud of that history, we also know that we can't rely on that history to create the kind of change we need in our world. A year ago, we took a step toward creating that change by making new commitments to equitable food access, equity in education and equity in representation. Given the location of our worldwide headquarters, we took the additional step of establishing the Minnesota Business Coalition for Racial Equity to push for structural changes that can have a true impact on systemic racism in the State of Minnesota.

I'm proud to report that we've made progress against each of our key focus areas. For example, we've partnered with leading national anti-hunger organizations such as the NAACP, Unidos, and Share our Strength, and we've invested in local organizations and we're working to improve government programs to address food insecurity that disproportionately impacts communities of color.

We also donated to two Minnesota-based nonprofit organizations, Black Men Teach and Reimagine Education, that partner nationally with the LeBron James Family Foundation to create greater equity in education for kids of color so they can each reach their full potential.

Finally, we continue to make progress on equity and representation at General Mills by focusing on leadership accountability, transparency and allyship. Over the last year, we've increased representation for people of color across all job bands, and for the first time we can say that 25% of our officers are people of color. I'm proud of the progress we're making on these important commitments, and at the same time, there is still more work to be done. I look forward to updating you on other aspects of our force for good work over the course of this year.

With that, I will pass it over to Kofi to review our financial performance in the first quarter.

Kofi Bruce

Thanks, Jeff, and hello, everyone.

Let's start with our first quarter financial results, on Slide 15. Net sales of \$4.5 billion were up 4%. Organic net sales grew 2% in the quarter, with results ahead of our expectations across all five operating segments.

Adjusted operating profit of \$819 million was down 2% in constant currency, primarily driven by higher input costs, partially offset by favorable price mix and lower administrative expenses. Adjusted diluted earnings per share totaled \$0.99 in the quarter and were also down 2% in constant currency. As Jeff mentioned earlier, on a two-year compound growth basis, first quarter organic net sales were up 6%, adjusted operating profit increased 9% in constant currency, and adjusted diluted EPS grew 12% in constant currency.

Slide 16 summarizes the components of our net sales growth in the quarter. Organic net sales were up 2%, with 1% growth in organic pound volume and 2 points of positive organic price mix. Foreign exchange was a 1 point benefit in the quarter.

Now, let's turn to segment results, beginning with North America Retail on Slide 17. First quarter organic net sales were down 3%, driven by lower at-home demand, as well as the comparison to last year's Q1, when our net sales benefited from retailers rebuilding inventory that had been drawn down at the onset of the pandemic. Net sales declines in U.S. Meals and Baking, and U.S. Cereal, were partially offset by increases in U.S. Snacks and Canada. On a two-year compound growth basis, first quarter organic net sales were up 5%.

We continued to compete effectively, growing or holding market share in more than 50% of our U.S. retail sales, and we grew strong share gains in Canada. First quarter constant currency segment operating profit decreased 12%, primarily driven by higher input costs and lower volume, partially offset by favorable price mix and lower administrative expenses. On a two-year compound growth basis, constant currency segment operating profit increased 4%.

Organic net sales for our Pet segment increased 20% in the quarter, including double-digit growth in both Dog Food and Cat Food. This quarter's organic net sales growth benefited from a comparison against last year's first quarter that was negatively impacted by a reduction in at-home food inventory. On a two-year compound growth basis, first quarter organic net sales were up 13%.

The Blue Buffalo brand continued to drive strong retail sales growth and market share gains in measured channels. In addition, retail sales for the Nudges, True Chews and Top Chews brands collectively grew 20% in measured channels in the quarter.

On the bottom line, first quarter segment operating profit grew 28%, driven by favorable price mix and higher volume, partially offset by higher input costs and higher SG&A expenses. On a two-year compound growth basis, constant currency segment operating profit increased 20%.

Turning to Convenience Stores and Foodservice segment results on Slide 19, organic net sales grew 23% in the quarter, reflecting strong execution and a partial recovery in away-from-home food demand in the U.S., including stronger consumer traffic in schools, restaurants, lodging and C-stores. On a two-year compound growth basis, first quarter organic net sales were up 4%. Segment operating profit increased 47% in the quarter, driven by favorable net price realization and mix, and higher volume, partially offset by higher input costs. On a two-year compound growth basis, constant currency segment operating profit increased 6%.

In Europe and Australia, first quarter organic net sales were flat, with growth in Snack Bars and Yogurt offset by a decline in Ice Cream. On a two-year compound growth basis, organic net sales increased 3%. First quarter segment operating profit declined 22% in constant currency, driven by input cost inflation and unfavorable product mix, partially offset by HMM cost savings. On a two-year compound growth basis, constant currency segment operating profit increased 21%.

In Asia and Latin America, first quarter organic net sales grew 6% and were up 11% on a two-year compound basis. Net sales were up high single digits in Latin America, primarily driven by continued strong performance for Yoki meals in Brazil, and were up mid-single digits in Asia, led by good growth for Häagen-Dazs ice cream in China.

First quarter segment operating profit decreased 26% in constant currency, driven by higher input costs and higher SG&A expenses, partially offset by favorable price mix. On a two-year compound growth basis, constant currency segment operating profit increased 11%.

Turning to our joint venture results on Slide 22, Cereal Partners Worldwide net sales were down 5% in constant currency, reflecting a difficult comparison against elevated at-home demand in the early stages of the pandemic last year. Häagen-Dazs Japan net sales were up 14% in constant currency, including strong new product contributions from our Decorations Mini Cup line. First quarter combined after-tax earnings from joint ventures totaled \$29 million, compared to \$41 million a year ago, primarily driven by lower net sales and increased media investment at CPW. On a two-year compound growth basis, combined after-tax earnings were up 15%.

Turning to total Company margin results on Slide 23, our first quarter margin performance was below last year but ahead of our expectations, driven by administrative expenses and net pricing that were better

than our plan, offset by higher than expected supply chain costs in the quarter. First quarter adjusted gross margin decreased 150 basis points, primarily due to inflation, other supply chain costs, and deleverage, partially offset by HMM and favorable price mix. Adjusted operating profit margin in the quarter was down 110 basis points, driven by lower adjusted gross margin, partially offset by lower administrative expense.

Slide 24 summarizes other noteworthy Q1 income statement items. Adjusted unallocated corporate expenses decreased by \$19 million in the quarter. Net interest expense decreased \$15 million, driven by lower rates and lower average debt balances. The adjusted effective tax rate for the quarter was 21.7%, compared to 21.9% a year ago, driven by favorable changes in earnings mix. Average diluted shares outstanding were down 1%, reflecting our net share repurchase activity.

Turning to the balance sheet and cash flow, first quarter operating cash flow totaled \$370 million compared to \$584 million a year ago, primarily driven by timing-related changes in accounts payable and accounts receivable. Capital investments in the quarter totaled \$104 million, and we returned more than \$460 million in cash to shareholders through dividends and net share repurchases.

On Slide 26, we provided an update of a few key financial assumptions for Fiscal '22. On the cost side, Jeff mentioned that we expect input cost inflation and other supply chain costs will be more of a headwind in Fiscal '22 than compared to our initial outlook we shared on our Q4 earnings call. We expect input cost inflation will be between 7% and 8% for the year, up from our original outlook of roughly 7%. We expect labor shortages will drive higher than planned costs across the supply chain, from sourcing to internal and external manufacturing and distribution.

To offset these costs, we expect to deliver HMM cost savings at 4% cost of goods sold and we've taken some incremental SRM actions on top of broad-based pricing we discussed on our Q4 earnings call. We expect our price mix to step up in Q2, compared to the 2 points of positive price mix we generated in Q1.

With a portion of our free cash flow being used to fund the Pet Treats acquisition, we expect our share repurchase activity will be somewhat less than we assumed in our initial outlook, though we will expect an average net shares reduction of about 1% for the year. Net of that change in our share repurchase activity, we expect the Pet Treats acquisition will add roughly \$0.02 to our full-year adjusted diluted earnings per share.

With these assumptions in mind, our Fiscal 2022 financial outlook, which we updated two weeks ago, can be seen on Slide 27. We expect organic net sales to be toward the higher end of our original range of down 1% to 3%, reflecting stronger than expected net sales performance in the first quarter.

Given the uncertainty in the demand environment caused by the evolving state of the virus, we have not made meaningful adjustments to our original net sales outlook for the remainder of the year.

We expect constant currency adjusted operating profit and constant currency adjusted diluted EPS to be toward the higher end of our original ranges of down 2% to 4% and flat to down 2%, respectively, largely due to the impact of the Pet Treats acquisition. We continue to expect free cash flow conversion will be approximately 95% of adjusted after-tax earnings, and it's important to note that this outlook excludes the impact of our European Yoplait divestiture. We'll plan to update our guidance to include the impact of that transaction after it closes later in this calendar year.

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

Jeff Harmening

Thanks, Kofi.

Let me close with a few thoughts. I'm proud of the way the General Mills team is executing and delivering results ahead of expectations in a tremendously challenging environment, and doing so while making important progress on reshaping our portfolio. While there's no question that the environment is tough, I believe that our great people, brands and capabilities are competitive advantages, and I like our chances to compete and win going forward.

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.