



General Mills

Third Quarter Fiscal 2022 Earnings Webcast

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CORPORATE PARTICIPANTS

Jeff Siemon, *Vice President, Investor Relations*

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' third 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.

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. You should note that beginning with this quarter we are reporting our results under a new segment structure which we first highlighted at CAGNY. You can find supplementary information on our IR website that shows our historical net sales and segment operating profit results recast for this new segment structure.

Please also 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. We are executing well in an operating environment that remains as volatile as ever. Input cost inflation is at historic levels with increasing variability, and disruptions continue to impact our supply chain, including some acute supply shortages that constrained a few of our U.S. platforms in the third quarter. We worked quickly to address those disruptions, driving a faster-than-expected rebound in service the final weeks of the quarter, which translated into Q3 results that were ahead of our latest guidance. We expect to drive strong growth in the fourth quarter, fueled by accelerating benefits from our recent Strategic Revenue Management actions, which will help offset an expected step-up in inflation in Q4. With confidence in our plans and positive momentum on our business, we are raising our full-year outlook on net sales, operating profit, and EPS.

Slide 5 summarizes our third quarter and year-to-date financial performance. Organic net sales growth was up 4% in the quarter, driven by positive price/mix. Higher supply chain costs and lower volume outstripped our pricing and productivity efforts, resulting in a 6% decline in constant-currency adjusted operating profit. Constant-currency adjusted diluted EPS was up 2% in the quarter, due to lower net interest and higher JV earnings.

This quarter marks two years since we began to see the impact of the COVID-19 pandemic on our business. Many markets, like the United States, are moving into a new normal, while some continue to face elevated cases and mobility restrictions. At this milestone, we thought it would be helpful to take stock of what has changed.

General Mills was accelerating as we entered the pandemic, and we've built on that momentum over the past two years. Our worldwide net sales are up nearly \$2 billion, or 11%, from two years ago, and our earnings have outpaced net sales growth with adjusted diluted earnings per share up 12%. We've grown household penetration on many of our biggest brands around the world. We've strengthened critical capabilities like Digital and Technology, Connected Commerce and SRM. Our portfolio is more oriented to profitable growth, thanks to our recent acquisitions and divestitures. And our balance sheet is much stronger today than it was two years ago, providing us with increased financial flexibility.

Shifting the focus back to Fiscal 2022, we're continuing to deliver this year against our three enterprise priorities. First, we continue to compete effectively by executing our Accelerate strategy. Second, we are successfully navigating the dynamic supply chain environment. And third, we are executing our portfolio and organizational reshaping actions without disrupting our base business. Let me share a few examples of our performance across these three priorities.

General Mills brands are winning in the marketplace. We're competing effectively in Fiscal '22, holding or growing market share in 66% of our priority businesses year-to-date. This includes important global platforms such as Cereal, Pet Food, Ice Cream, and Mexican Food, as well as local gem brands like Pillsbury refrigerated dough and our fruit snacks business in the U.S., Wanchai Ferry frozen dumplings in China, and Yoki and Kitano snacks and seasonings in Brazil.

We are winning in an operating environment that remains highly volatile. The whole industry continues to face transportation challenges and labor shortages. Our suppliers are facing these same constraints, leading to significant disruptions for our business.

At CAGNY, we called out supply-driven challenges on our U.S. refrigerated dough, pizza, and hot snacks platforms that were causing lower customer service and reduced on-shelf availability for those businesses. We responded urgently to address the problems. Our actions drove a sharper rebound than we expected at the end of the third quarter, and we're seeing that improvement continue into Q4.

Not only have supply chain disruptions been a challenge, but we are also facing historic levels of input cost inflation. Our market basket, measured at spot rates, has been at a multi-decade high in recent months, and Russia's invasion of Ukraine has driven further spot market inflation and volatility. Critically, we've seen very limited impact from those movements on our Fiscal '22 inflation outlook, which remains at 8% to 9% across our full cost of goods, including raw and packaging materials, manufacturing, and logistics. Our hedging strategy is working, reducing input cost volatility and increasing visibility, which gives us more time to take actions. And importantly, we are covered on certain key commodities at competitive prices through calendar 2022.

We continue to rely on HMM cost savings and SRM pricing actions to address rising costs. As we've shared before, we've taken broad-based SRM actions across our portfolio this year in response to elevated inflation. Our organic price/mix has increased each quarter, reaching 7% in Q3, and we expect

another step up in Q4 as we get the full impact of the SRM actions we put in place in recent months. Looking ahead, we remain committed to taking the necessary actions to address rising costs and protect our bottom line.

We've also made progress on our third priority, including streamlining and realigning our operating structure. This includes shifting our U.S. convenience store business into our North America Retail segment to better leverage our scale and unlock omnichannel snacking growth. Our renamed North America Foodservice segment is now exclusively focused on the U.S. and Canadian foodservice channels. And with the completion of our European divestitures, we've consolidated our Asia & Latin America and Europe & Australia segments into a single International reporting unit to simplify our global operations.

In total, these changes position our businesses for greater competitiveness and agility, and strengthen our ability to deliver long-term profitable growth in line with our Accelerate strategy.

Another critical element of our Accelerate strategy is our focus on being a force for good in the world, as a company and through our brands. As we shared with you earlier this fiscal year, each quarter we intend to highlight an ESG-related topic and discuss our progress and future goals.

This quarter, we focus our attention on Russia's invasion of Ukraine and the growing humanitarian crisis in the region. We extend our deepest sympathies and condolences to the people of Ukraine, and we've taken action to support those impacted in Ukraine and neighboring countries, with a particular focus on food security.

Through General Mills and our Cereal Partners Worldwide joint venture, we have provided funding to our partners at the European Food Banks Federation and the International Federation of Red Cross Societies, and we've made direct food donations for people in need. Our employees are also supporting these initiatives through our charitable gift matching program.

To conclude, I like the way we're competing and managing through this challenging environment better than our competition. We are growing our core while making important changes to our portfolio to position us for stronger, more profitable growth over the long term. And we're doing what we said we will do, with Fiscal '22 marking the fourth consecutive year where we expect to meet or exceed our key financial targets. We have good momentum, and we are set up to continue to win as we exit the pandemic and move into the next phase of growth.

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

Kofi Bruce

Thanks Jeff, and hello everyone. Let's start with our third quarter financial results on Slide 14.

Net sales of \$4.5 billion were flat in the quarter. Organic net sales grew 4% driven by positive price/mix from our broad-based SRM actions, partially offset by lower pound volume.

Adjusted operating profit of \$676 million was down 6% in constant currency, driven primarily by input cost inflation, supply chain deleverage, and higher other cost of goods sold, and lower volume, partially offset by positive price/mix, HMM cost savings, and lower SG&A expenses. Adjusted diluted earnings per share of \$0.84 were up 2% in constant currency, due primarily to lower net interest expense and higher after-tax JV earnings, partially offset by lower adjusted operating profit. On a two-year compound growth basis, third-quarter organic net sales grew 5%, adjusted operating profit decreased 1% in constant currency, and adjusted diluted earnings per share grew 4% in constant currency.

Slide 15 summarizes the components of our reported net sales in the quarter. Organic net sales grew 4%, with 7 points of positive organic price/mix partially offset by a 4-point headwind from lower organic pound volume. Our net acquisition and divestiture activity reduced net sales growth by 3 points in the quarter.

Now let's turn to segment results, beginning with North America Retail on Slide 16. Note that in addition to shifting our convenience store business into NAR this quarter, we've also streamlined the segment's operating unit structure, most notably by combining U.S. Cereal and U.S. Yogurt into a single U.S. Morning Foods operating unit.

Third-quarter organic net sales for NAR were up 1%, driven by positive price/mix, partially offset by lower volume. NAR had a difficult comparison this quarter with organic net sales up 11% a year ago. On a two-year compound growth basis, third-quarter organic net sales were up 6%. Net sales growth lagged Nielsen-measured retail sales growth by roughly 3 points in the quarter, driven by the acute supply shortages that Jeff mentioned earlier on refrigerated dough, pizza, and hot snacks. As Jeff mentioned, we started to see improved customer service on those platforms in the last few weeks of Q3, and we expect further service improvement in Q4.

From an operating unit standpoint, third quarter net sales growth in U.S. Morning Foods and U.S. Snacks was partially offset by a decline in U.S. Meals & Baking Solutions. We continue to compete effectively, with 56% of our U.S. Retail business holding or growing share year to date.

Third-quarter constant-currency segment operating profit decreased 3%, driven primarily by higher input costs and lower volume, partially offset by positive price/mix and lower SG&A expenses. On a two-year compound growth basis, constant-currency segment operating profit was up 5%.

Third-quarter net sales for our Pet segment increased 30%, including 14 points of benefit from the pet treats acquisition. Organic net sales were up 16% in the quarter, including double-digit growth in cat food and treats, and high-single-digit growth in dog food and treats. On a two-year compound growth basis, third-quarter organic net sales were up 15%.

Fiscal year to date, the Blue Buffalo brand continued to drive strong retail sales growth and market share gains in measured channels, and the Nudges, True Chews, and Top Chews brands generated year-to-date retail sales growth of 21%.

On the bottom line, constant-currency segment operating profit increased 8%, 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. On a two-year compound growth basis, constant-currency segment operating profit also increased 8%.

Turning to Slide 18, third quarter organic net sales for North America Foodservice grew 22%, reflecting increased demand in away-from-home food channels including schools, restaurants, and lodging, as well as benefits from market index pricing on bakery flour. On a two-year compound growth basis, third-quarter organic net sales were down 3%.

Segment operating profit decreased 13% in the quarter, driven by higher input costs, partially offset by positive price/mix. On a two-year compound growth basis, constant-currency segment operating profit decreased 29%.

Third-quarter net sales for our International segment were down 23%, primarily reflecting the divestiture of our European yogurt and dough businesses. Organic net sales were down 1%, reflecting a difficult

comparison to year-ago results that grew 10%. On a two-year compound growth basis, organic net sales increased 4%. We continue to compete effectively, including growing year-to-date market share in Mexican Food and Ice Cream.

Third-quarter segment operating profit was down 16% in constant currency, driven primarily by lower volume, including the impact of the European yogurt and dough divestitures, and higher input costs, partially offset by positive price/mix and lower SG&A expenses. On a two-year compound growth basis, constant-currency segment operating profit was up 1%.

Slide 20 summarizes our joint venture results in the third quarter. Cereal Partners Worldwide net sales increased 1% in constant currency, driven by positive price/mix, partially offset by lower volume. Häagen-Dazs Japan net sales were up 9% in constant currency, driven primarily by strong performance on core products and improved distribution.

Third-quarter constant currency after-tax earnings from joint ventures increased to \$30 million versus \$12 million a year ago, driven by higher profit in Cereal Partners Worldwide.

Now let's turn to total Company margin results on Slide 21. As we expected, we cut our Q2 margin decline roughly in half with Q3 adjusted gross margin down 160 basis points. Increased benefits from positive price/mix and continued HMM cost savings outweighed a step-up in input cost inflation in the quarter, but were not enough to fully offset headwinds from supply chain disruptions and other costs of goods sold. Adjusted operating profit margin in the quarter was down 90 basis points, driven by lower adjusted gross margin, partially offset by lower SG&A expenses.

Slide 22 summarizes other noteworthy Q3 income statement items. Adjusted unallocated corporate expenses increased by \$19 million in the quarter. Net interest expense decreased \$20 million, driven by lower average debt balances. The adjusted effective tax rate for the quarter was 21% compared to 21.6% a year ago, due primarily to favorable earnings mix by market, and average diluted shares outstanding were down 1%, reflecting our share repurchase activity.

Our Fiscal '22 year-to-date results are summarized on Slide 23. Net sales of \$14 billion were up 4%. Organic net sales also increased 4% driven by positive organic price/mix. Year-to-date adjusted operating profit of \$2.3 billion decreased 5% in constant currency, and adjusted diluted earnings per share of \$2.82 were down 2% in constant currency. On a two-year compound growth basis, organic net sales were up 6%, constant-currency adjusted operating profit was up 3%, and constant-currency adjusted diluted EPS was up 6%.

Turning to the balance sheet and cash flow, nine-month operating cash flow of more than \$2.2 billion was up 1% versus last year. Our core working capital balance decreased \$159 million from a year ago due to an increase in accounts payable and timing in inventory. Year-to-date capital investments totaled \$351 million, and we've returned nearly \$1.4 billion in cash to shareholders in the first nine months of the year through dividends and net share repurchases.

On Slide 25, we've provided an update on some key financial assumptions for the fourth quarter of Fiscal '22. We expect price/mix to step up again in the fourth quarter, reflecting a full quarter of benefit from SRM actions that went into effect in recent months. On the cost side, we continue to expect double-digit input cost inflation in the fourth quarter and 8% to 9% inflation for the full year. We are close to fully covered on our ingredients and packaging material requirements in Fiscal '22.

We expect the operating environment will remain challenging and volatile as we close out the year. We anticipate demand will remain elevated, and we expect the improvement in customer service that we saw at the end of the third quarter will carry into Q4, though will still be well below normal service levels.

As Jeff mentioned earlier, we've raised our full-year outlook for Fiscal 2022, which you can see on Slide 26. We now expect to generate organic net sales growth of approximately 5%, which is at the upper end of our prior range. We expect constant-currency adjusted operating profit to range between down 2% and flat, compared to our previous range of down 4% to down 1%, reflecting the flow-through of stronger topline growth. Constant-currency adjusted diluted earnings per share are now expected to range between flat and up 2% compared to our prior guidance between down 2% and up 1%, and we continue to expect free cash flow conversion will be at least 95% of adjusted after-tax earnings.

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

Jeff Harmening

Thanks Kofi.

Let me close by saying that I'm proud of the way we're executing and competing in such a challenging environment. We moved quickly to address recent supply disruptions and exited Q3 with improved momentum. We expect to generate strong growth in Q4 and deliver full year results that are ahead of our original guidance. And we remain focused on executing our Accelerate strategy and driving superior shareholder returns over the long term.

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.