



GENERAL MILLS FISCAL 2023 Q1 EARNINGS CALL

September 21, 2022

Pre-Recorded, Available by 6:30 a.m. Central Time

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. Thank you for listening to General Mills' prepared remarks for our fiscal 2023 first-quarter 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. Before I hand things over to them, let me first touch on a few items.

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

Jeff Harmening

Thank you, Jeff and good morning, everyone.

Let me start by summarizing today's key messages. We delivered strong results in our first quarter, with double-digit growth in organic net sales and adjusted earnings. While the operating environment continues to be volatile, our team remains focused on executing with agility to advance our Accelerate strategy and deliver on our fiscal 2023 priorities. Given the strength of our first-quarter results and confidence in our ability to adapt to continued volatility ahead, we are raising our full-year guidance for organic net sales, adjusted operating profit, and adjusted diluted EPS growth.

Slide 5 summarizes our first-quarter financial performance. We drove 10 percent organic net sales growth in the quarter, fueled by strong net price realization in response to significant levels of input cost inflation. On the bottom line, adjusted operating profit was up 8 percent and adjusted diluted EPS was up 13 percent, each in constant currency.

The operating environment remains challenging and highly volatile. We continue to see elevated levels of inflation across our cost basket, including significant year-over-year increases in raw materials, labor, freight, and fuel. Our full-year forecast for input cost inflation is now approximately 14 to 15 percent in fiscal 2023.

Significant inflation and reduced consumer spending power has led to an increase in at-home eating and other value-seeking behaviors. We think elevated demand for food at home was one reason we saw lower-than-expected volume elasticities in Q1, particularly in North America Retail. We expect elasticities will increase over the remainder of the year, though remain below historic levels.

We saw some modest improvement in the supply chain environment in the first quarter, particularly in the logistics network. However, the level of upstream supply disruptions remains well above historic averages, translating into our customer service levels that, while moderately better than a quarter ago, remain in the low-to-mid 80 percent range in the U.S., compared to our normal range of 98 to 99 percent.

And finally, we continue to see the pandemic impacting consumers' lives, affecting health and mobility around the globe. In Q1, this was most acute in China. As we head into the colder months in the northern hemisphere, we will be on the watch for virus surges that could drive mobility restrictions and impact consumer food choices.

While this operating environment remains challenging, we are focused on continuing to respond with agility to deliver winning results regardless of the environment we face.

Our focus in fiscal 2023 is to continue to drive our Accelerate strategy by executing on the three priorities that are outlined on slide 7.

- We will continue to compete effectively by boldly building our brands, relentlessly innovating, and servicing the business with excellence.
- We will continue to invest for the future by delivering HMM and SRM to offset inflation, making strategic investments in the business, and continuing to progress against our ESG commitments.
- And we will continue to reshape our portfolio by ensuring smooth transitions for our announced transactions and assessing the landscape for additional growth- and value-enhancing acquisitions or divestitures.

Let me share a bit about how we're doing against these priorities through the first quarter.

I'm pleased to say that we're continuing to compete effectively this year, holding or gaining share in 56 percent of our priority businesses worldwide, despite some acute supply chain challenges in our Pet and International segments. We grew share in a broad array of categories this quarter, including Global Cereal, Refrigerated Dough, Fruit Snacks and Hot Snacks in the U.S., Seasonings in Brazil, and Frozen Dumplings in China.

A key enabler for these results has been our continued peer-leading performance in customer service. In our North America Retail segment, for example, our on-shelf availability in Q1 was better than the competition in 7 of our top 10 U.S. categories.

In addition to executing for today, we continue to make strategic investments to strengthen our brands and our competitive advantages for the future. This starts with investing in our brands. For example, we are extending the power of the *Blue Buffalo* master brand to our newly acquired *Nudges*, *True Chews* and *Top Chews* brands, which will help significantly increase awareness of these differentiated products.

As consumers expect more digital experiences, we are also investing to launch Good Rewards, a portfolio-wide loyalty program in the U.S. This program will showcase our brands, drive engagement and loyalty with consumers, and help families stretch their dollar to make meals more accessible. In the first two months since Good Rewards was launched, we already have 700,000 subscribers, which is well over halfway to our annual goal of 1 million. And we are ahead of our expectations on user engagement and conversion as well. By shifting our efforts to this digital platform, we can react more quickly and effectively to drive stronger consumer engagement in a dynamic market.

Additionally, we are making significant capital investments to increase our internal manufacturing capacity on key platforms such as pet food, fruit snacks, hot snacks, Mexican food, and cereal. These businesses were growing before the pandemic, they grew during the pandemic, and these investments will enable them to continue to grow into the future.

One example where our investments have driven a multi-year track record of growth is on *Totino's* pizza and hot snacks. The Totino family opened their first pizzeria in Minneapolis, Minnesota, in 1951. Fast forward to today, and the *Totino's* brand remains highly relevant, with more than 1 out of 4 American households eating *Totino's* pizza rolls or party pizzas each year.

Totino's uniquely connects with teens and has the highest consumer engagement on social media activations of any brand at General Mills. For example, our recent Parmesan and Garlic Pizza Roll recipe received more than 30 million views on TikTok. We also recently launched a highly requested Buffalo Chicken Wing version of pizza rolls, in partnership with FaZe, a media platform rooted in youth gaming culture. This new variety enables gamers to eat pop-able buffalo chicken wings without interrupting their afternoon gaming routine.

As the *Totino's* business has continued to grow, we've increasingly faced service challenges in recent years as we've bumped up against supply and capacity constraints. Last year, our cross-functional team responded to acute supply shortages on starch, a minor but critical processing ingredient, by developing more than 25 alternative formulations without sacrificing taste or quality. But even with steady ingredient supply, we are running up against internal capacity constraints resulting from the brand's multi-year track record of retail sales growth, which averaged mid-single-digits in the 3 years before the pandemic, and accelerated to high-single-digit annual growth in the most recent 3 years. So we recently approved a significant capital expansion project at our Wellston, Ohio, manufacturing facility to be able to supply future growth.

I'm pleased to announce that the strong growth we've driven on *Totino's* in recent years has moved it above \$1 billion dollars in retail sales. This makes *Totino's* our 9th billion-dollar brand, joining the ranks of our other iconic brands such as *Cheerios*, *Nature Valley*, and *Blue Buffalo*. In fact, while we operate a diversified portfolio, these nine brands now make up roughly two-thirds of General Mills' worldwide net sales.

Standing for Good remains a key pillar of our Accelerate strategy and is another important way we are investing for the future...for our company, our communities, and our planet. We continue to make progress against our 10 key ESG commitments, with our three top priorities being reducing greenhouse gas emissions, expanding regenerative agriculture, and designing our packaging to be reusable or recyclable.

To further our commitment in regenerative agriculture, we recently committed to investing more than \$2 million dollars with ALUS to advance regenerative agriculture in regions where we source wheat and oats in Canada. This funding will provide support to increase farmer mentorship and fund in-field projects that apply regenerative agriculture techniques. To date, we have enrolled more than 225,000 acres in regenerative agriculture programs in our key supply sheds, and we expect to reach 350,000 acres by the end of this fiscal year.

Our third priority for Fiscal '23 is to continue to reshape our portfolio, and I'm pleased to say we closed two growth-enhancing transactions during the first quarter. In June, we completed our acquisition of TNT Crust, a high-quality, fast-growing frozen pizza crust business providing solutions for labor-constrained foodservice operators in the U.S. While we are still very early in the integration process, we are pleased with the results, with pro forma net sales for this business increasing 20 percent during Q1. And we believe this business has significant runway for future growth in foodservice channels, as we use our direct sales force to expand distribution and leverage our capabilities for additional scale.

And in July, we completed the sale of our Helper main meals and Suddenly Salad side dishes business. This transaction improves North America Retail's growth profile and increases the segment's focus on its most attractive future growth opportunities.

These two transactions represent important additional steps as we upgrade the growth profile of our portfolio. We remain committed to executing an "Always On" portfolio shaping strategy to strengthen our ability to deliver long-term profitable growth for our shareholders.

With that, let me turn it over to Kofi to go into more details on our first-quarter financials.

Kofi Bruce

Thanks, Jeff. And hello everyone.

Our first-quarter financial results are summarized on slide 15. It's important to note that our year-over-year comparisons this quarter were impacted by a number of unusual items. This included the acquisitions of pet treats and TNT Crust, as well as the divestitures of our European yogurt business, our international dough businesses, and the Helper and Suddenly Salad business in North America.

Additionally, our first-quarter results included the impact of a recent voluntary recall on certain international Häagen-Dazs ice cream products, which was a headwind to net sales and operating profit for our International segment. We expect the majority of the recall impact has been captured in the first quarter, with a smaller amount expected to impact Q2. Unallocated corporate items in the first quarter included an additional \$22 million dollars of charges related to product disposals associated with the ice cream recall that were excluded from our adjusted operating profit results.

Now let's move on to our Q1 results. Reported net sales of \$4.7 billion dollars were up 4 percent, and organic net sales grew 10 percent in the quarter, driven by positive price/mix, partially offset by lower volume, including the impact of the ice cream recall.

Adjusted operating profit of \$881 million dollars was up 8 percent in constant currency, primarily driven by positive price/mix, partially offset by higher input costs, lower volume, including the impact of divestitures and the ice cream recall, and higher SG&A expenses. Adjusted diluted earnings per share totaled \$1.11 in the quarter and were up 13 percent in constant currency.

Slide 16 summarizes the components of our net sales growth in the quarter. Organic net sales were up 10 percent, reflecting a 5 percent decline in organic pound volume and 15 points of positive organic price/mix. Foreign exchange reduced net sales by 1 point, and the net impact of acquisitions and divestitures was a 5-point headwind to first-quarter net sales.

Turning to our segment results, beginning with North America Retail on slide 17. Organic net sales grew 12 percent in the quarter, driven by positive price/mix, partially offset by lower volume. Despite elevated levels of inflation-driven pricing, elasticities remained below both historical levels and our expectations.

We continued to compete effectively in the quarter, with roughly two-thirds of our U.S. Retail business holding or growing share.

First-quarter constant-currency segment operating profit increased 20 percent, primarily driven by favorable price/mix and HMM cost savings, partially offset by input cost inflation, lower volume, and supply chain deleverage.

Slide 18 summarizes our Pet segment results. Organic net sales for Pet increased 14 percent in the quarter, on top of strong double-digit growth in the prior year, driven by positive price/mix, partially offset by lower volume.

While demand for *Blue Buffalo* remains strong, we continue to be challenged by capacity constraints on the business, which is limiting our ability to deliver competitive customer service and drive further volume growth. We gained share in wet pet food in the first quarter, but capacity limitations did not allow us to keep pace with the category in dry food and treats. We anticipate bringing on additional co-packer capacity on the treats business in the back half of fiscal 2023. For dry food, we continue to work to increase the output of our current lines, and we plan to add significant additional capacity to our internal network starting in fiscal 2024.

On the bottom line, first-quarter segment operating profit grew 7 percent, driven by positive price/mix and HMM cost savings, partially offset by input cost inflation and higher SG&A.

Moving on to our North America Foodservice segment results on slide 19, organic net sales grew 18 percent in the quarter, including a 17-point benefit from market index pricing on our bakery flour business, which is dollar profit neutral.

Segment operating profit for the quarter was down 25 percent, as price/mix on the business outside of bakery flour did not keep pace with roughly 20 percent input cost inflation for the segment in Q1. We expect recent incremental SRM actions will help address this gap and improve our profit performance in the remainder of the year.

First-quarter International segment results are summarized on slide 20. Organic net sales were down 2 percent this quarter, driven by lower volume, including the impact of the ice cream recall, partially offset by positive price/mix.

First-quarter segment operating profit declined 34 percent in constant currency, driven by lower volume, including the impacts of our yogurt and dough divestitures and the ice cream recall, and higher input costs, partially offset by positive price/mix and lower SG&A. Excluding the impact of the divestitures and the recall, first-quarter International segment operating profit was above year-ago levels.

Slide 21 summarizes our joint venture results in the first quarter. Cereal Partners Worldwide net sales were up 3 percent in constant currency, driven by favorable price/mix, partially offset by lower volume. Häagen-Dazs Japan net sales were down 8 percent in constant currency due to lower volume.

First-quarter combined after-tax earnings from joint ventures totaled \$20 million dollars compared to \$29 million dollars a year ago, primarily driven by higher input costs, partially offset by favorable CPW price/mix.

Turning to total company margin results on slide 22, our first-quarter adjusted gross margin increased 20 basis points versus last year to 34.9 percent, driven by positive price/mix and HMM cost savings, partially offset by mid-teens input cost inflation, the impact of bakery flour index pricing, and supply chain deleverage.

Adjusted operating profit margin increased 70 basis points in the quarter to 18.7 percent, driven by lower SG&A expenses as a percent of sales and higher adjusted gross margin.

Slide 23 summarizes other noteworthy Q1 income statement items. Adjusted unallocated corporate expenses increased \$30 million dollars in the quarter, primarily reflecting certain one-time favorable items a year ago. Net interest expense decreased \$8 million dollars, driven by lower average long-term debt balances. The adjusted effective tax rate for the quarter was 19.7 percent compared to 21.7 percent a year ago, driven by certain discrete tax benefits this year. And average diluted shares outstanding in the quarter were down 1 percent to 606 million shares, reflecting our higher net share repurchase activity.

Turning to the balance sheet and cash flow on slide 24. First-quarter operating cash flow increased 5 percent to \$389 million dollars, primarily driven by increased net earnings, a favorable change in current assets and liabilities, and a favorable change in other operating items, partially offset by a net gain on divestitures. Capital investments in the quarter totaled \$91 million dollars. We remain on track for capital investment to equal roughly 4 percent of net sales for the full year. And we returned \$760 million dollars in cash to shareholders through dividends and net share repurchases.

On slide 25, we've provided four updates to our financial assumptions for Fiscal '23.

- First, we expect full-year volume elasticities will be lower than our initial plan, due in part to results we have seen through the first three-and-a-half months of the year. We still expect elasticities will increase over the final three quarters of fiscal '23, though remain below historical levels.
- Second, we expect higher full-year input cost inflation, now in the range of 14 to 15 percent of cost of goods sold. This reflects higher labor, energy, and transportation costs at our suppliers, as well as increased spot market purchases as we service volume above our original plan.
- Third, we are stepping up investments in brand building and other growth-driving activities.
- And finally, we expect the impact of the recent ice cream recall will lower our full-year Adjusted Operating Profit and Adjusted Diluted EPS growth by approximately one percent.

Our other key fiscal '23 planning assumptions are unchanged. We still expect HMM cost savings of 3 to 4 percent of COGS and low-double-digit positive price/mix. Our net divestiture and acquisition activity remains a 3-point headwind to adjusted operating profit and adjusted diluted EPS. And we're still forecasting a modest reduction in supply chain disruptions this year, though they will remain significantly above pre-pandemic levels.

With those updated assumptions in mind, we are raising our full-year fiscal 2023 outlook, as shown on slide 26. We now expect organic net sales to increase 6 to 7 percent, constant-currency adjusted operating profit growth to range between flat and up 3 percent, and constant-currency adjusted diluted earnings per share to be up 2 to 5 percent. And we continue to expect free cash flow conversion will be at least 90 percent of adjusted after-tax earnings.

Now 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 our team is executing and delivering strong results in what continues to be a highly volatile operating environment. The changes we made to our organization a year ago are paying off by enabling us to adapt more quickly to the new challenges and opportunities that we see each day. Looking ahead, we continue to remain focused on executing our Accelerate strategy, delivering on our fiscal '23 priorities and increased guidance, and driving sustainable, profitable growth for our shareholders 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 on our Investor Relations page at [GeneralMills.com](https://www.GeneralMills.com).