



GENERAL MILLS FISCAL 2023 Q3 EARNINGS CALL

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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. Thank you for listening to General Mills' prepared remarks for our fiscal 2023 third-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 broad-based top-line growth and strong bottom-line results in our third quarter, including continued positive momentum in North America Retail and encouraging improvement in each of our other three segments.

Our team continues to execute well, and we remain focused on advancing our Accelerate strategy and delivering on our fiscal 2023 priorities by competing effectively, investing for the future, and reshaping our portfolio. With stronger and more broad-based business momentum, we are once again raising our full-year guidance for organic net sales, adjusted operating profit, and adjusted diluted EPS growth.

Slide 5 summarizes our third quarter and year-to-date financial performance. We drove 16 percent organic net sales growth in the quarter, once again fueled by strong net price realization in response to significant levels of input cost inflation. Adjusted operating profit was up 20 percent and adjusted diluted EPS was up 17 percent, each in constant currency. On a year-to-date basis, we've generated double-digit growth in organic net sales, adjusted operating profit, and adjusted diluted EPS.

Our growth in Q3 was broad based across our segments, including organic net sales up high-single digits in International and up mid-to-high teens in North America Foodservice, North America Retail, and Pet. On the bottom line, three of our four segments posted strong double-digit or even triple-digit operating profit growth, while Pet profit was down year-on-year, as we expected, driven by significant input cost inflation and increased costs related to capacity and service improvements.

The state of the operating environment remains a critical factor for our business. We are pleased with the improvements we have seen in recent months, and yet the environment remains challenging and dynamic.

- We continue to forecast total input cost inflation of approximately 14 to 15 percent for the full year in fiscal 2023, including double-digit inflation in the second half. Looking beyond this fiscal year, we expect inflation to decelerate but remain above historical averages. Based on our current projections, we're forecasting mid-single-digit total input cost inflation in fiscal 2024, with labor and conversion costs at our suppliers being key sources of ongoing cost pressure. We will provide an updated inflation forecast along with the rest of our typical guidance commentary during our fourth-quarter earnings call in late June.
- Volume elasticities remained below historical levels through the first three quarters of fiscal 2023, particularly in North America Retail, and we do not expect a material change in elasticities for the remainder of fiscal 2023.
- The supply chain environment continues to improve. Our customer service level reached 90 percent in U.S. retail by the end of the quarter. Despite these improvements, supply disruptions remain well above historic averages and customer service is still notably below our normal range of 98 to 99 percent.

In addition to these factors, we continue to track consumer mobility as we move beyond the period of acute pandemic impact. The most recent change has been in China, where we continue to see a broad trend toward reopening and where consumer traffic in our Haagen-Dazs shops is steadily increasing. We anticipate shops traffic will be at or near pre-pandemic levels as we move into the summer.

Stepping back, while we are seeing definite improvements, the operating environment remains dynamic. Led by our Accelerate strategy, we are confident in our ability to adapt to continued change and deliver winning results in the months and years ahead, regardless of the environment.

We are continuing to drive our Accelerate strategy this year by executing on the three priorities outlined on slide 8:

- We are competing effectively by boldly building our brands, relentlessly innovating, and servicing the business with excellence.

- We are investing for the future by delivering HMM and SRM to offset inflation, making strategic investments in the business, and advancing our ESG commitments.
- And we are reshaping our portfolio, including closing three transactions so far in fiscal '23 and assessing the landscape for additional growth- and value-enhancing acquisitions or divestitures.

Let me share a few highlights of the progress we've made against our priorities so far in Fiscal 2023.

We're continuing to compete effectively this year, including holding or gaining share in 56 percent of our priority businesses year-to-date, when adjusting for an unusual competitive dynamic in Cereal last year and looking at that platform on a 2-year basis. And this is on top of holding or gaining share in roughly two-thirds of our priority businesses worldwide in each of the past four fiscal years. Our share gains this year span a broad array of platforms in the U.S. and internationally, including Cereal, Refrigerated Dough, Fruit Snacks, Soup, and Seasonings.

In addition to executing for today, we continue to make strategic investments to strengthen our brands and our competitive advantages for the future.

We believe healthy investments in brands is critical for long-term growth. We have grown our media investment at a 4 percent compound rate over the past three years, and we're on track for a strong double-digit increase in fiscal 2023. We're putting that investment behind compelling, digitally enabled, high ROI campaigns such as Cheerios heart health, 20 percent More Meat news on Blue Buffalo's Wilderness line, and our latest global Haagen-Dazs campaign.

We also continue to invest behind innovation. Over the past three years, we've kept up our innovation pressure, and our new product retail sales have been 30 percent higher than the category average. We are continuing that focus with our Fiscal 2023 innovation.

- In North America Retail, we continue to lead innovation in the cereal category with our latest launch, new Mini versions of Cinnamon Toast Crunch, Reese's Puffs, and Trix.
- In International, we are launching a delicious new Häagen-Dazs Macaron ice cream line, in collaboration with celebrity pastry chef Pierre Hermé.
- In Foodservice, we continue to expand distribution and drive growth with our 2-equivalent-grain cup cereal line, including new Honey Cheerios and reduced-sugar Trix varieties.
- And in Pet, we're launching innovation across the Blue Buffalo platform, including Wilderness Premium Blend, a new super-premium dry dog food; our new Blue Buffalo fresh dog food offering we are currently testing in 200 stores in the FDM channel; and human inspired treats products including Blue Benebars and Nudges on-the-go.

In addition to investments in brand building and innovation, we're also investing for the future in capabilities that allow us to leverage our scale and create meaningful competitive advantages for General Mills. As we shared at CAGNY last month, we're making good progress in building differentiated capabilities such as Connected Commerce, Strategic Revenue Management, and Supply Chain Digitization that will help us accelerate profitable growth.

To enable this, we've been investing heavily in recent years to build a world-class Digital & Technology capability that provides the foundation for these enterprise initiatives. And we're significantly stepping up this investment again in Fiscal 2023 to better capture insights and unlock new growth and efficiency opportunities throughout our business.

Another way we are investing for the future is through our commitment to Standing for Good. We continue to make progress against our 10 key ESG commitments, and because yesterday was World Water Day, I'd like to provide a brief update on our commitment to championing the regeneration of water resources in our priority watersheds.

With 99 percent of General Mills' water impact outside of our owned operations, we focus our efforts on protecting our ingredient sourcing locations from water risk. We believe advancing regenerative agriculture is our primary lever to protect the most important and at-risk watersheds in our global value chain. In fact, the same activities that improve soil health also improve water outcomes.

In addition to our regenerative agriculture efforts, we support water stewardship projects in 14 priority watersheds – partnering with a variety of nonprofits, governments, and businesses to improve the management of this essential resource.

One example of our work underway is in California's San Joaquin Valley watershed. We source 100 percent of our almonds from California, a state facing extreme water stress. Over the last decade we've proudly supported Sustainable Conservation, a nonprofit solving water challenges in California. Sustainable Conservation educates farmers and coordinates with government water regulators to release water upstream and temporarily flood farms during wet years to refill depleted groundwater. Since December, our partnership has enabled Central Valley farmers to take advantage of recent precipitation to store more than 16 billion gallons of water for use in dry seasons.

In total, I continue to be pleased with how we're executing our Accelerate strategy, strengthening our momentum, and delivering results in fiscal '23. Let me now turn it over to Kofi to provide more details on our third-quarter results and our updated outlook.

Kofi Bruce

Thanks, Jeff. And hello everyone.

Our third-quarter financial results are summarized on slide 15. Reported net sales of \$5.1 billion dollars were up 13 percent, and organic net sales grew 16 percent in the quarter, reflecting continued positive price/mix in response to significant input cost inflation.

Adjusted operating profit of \$807 million dollars was up 20 percent in constant currency, with benefits from price/mix partially offset by higher input costs and higher SG&A expenses, including a strong double-digit increase in media investment. Adjusted diluted earnings per share totaled \$0.97 in the quarter and were up 17 percent in constant currency.

Slide 16 summarizes the components of our net sales growth in the quarter. Organic net sales were up 16 percent, primarily driven by positive organic price/mix. Organic volume was flat in the quarter, reflecting continued low elasticities as well as the comparison against mid-single-digit organic volume declines a year ago that included acute service issues on our U.S. refrigerated dough and hot snacks platforms. Foreign exchange reduced net sales by 1-point, and the net impact of acquisitions and divestitures was a 2-point headwind to third-quarter net sales.

Now let's turn to our segment results, beginning with North America Retail on slide 17.

NAR continues to perform exceptionally well, with our brands delivering for consumers and the business executing successfully amid ongoing volatility in the operating environment. Organic net sales grew 18 percent in the quarter, driven by positive price/mix. This growth was broad based, with double-digit net sales growth in U.S. Meals and Baking Solutions and U.S. Snacks and high-single-digit growth in U.S. Morning Foods and Canada in constant currency. We continue to compete effectively, with 70 percent of our North America Retail priority businesses holding or growing share year-to-date, when adjusting for Cereal on a two-year basis.

Third-quarter constant-currency segment operating profit increased 29 percent, primarily driven by positive price/mix, partially offset by higher input costs and higher SG&A expenses, including a strong double-digit increase in media investment. While Q3 input cost inflation was up double digits for NAR, we saw some easing in the cost of supply chain disruptions, and we exited the quarter with our customer service level in the U.S. at nearly 90 percent.

Slide 18 summarizes our Pet segment results. As expected, we saw a nice rebound in topline trends for Pet in Q3, with organic net sales up 14 percent in the quarter. This included double-digit growth in dry dog and cat food and high-single-digit growth in dog treats. Q3 organic net sales accelerated from our Q2 trend, driven by improved customer service, increased brand building and other commercial activities, and a rebuild of retailer inventory levels. While we've seen significant volatility in retailer inventory for Pet over the past two quarters, it was roughly stable on a fiscal-year-to-date basis, with organic net sales and all-channel retail sales both up high-single digits through nine months.

On the bottom line, third-quarter Pet segment operating profit declined 7 percent, driven primarily by double-digit input cost inflation, increased costs related to capacity expansion and service improvement, and higher SG&A expenses, including a double-digit increase in media investment. These headwinds were partially offset by positive price/mix, HMM cost savings, and higher volume. We remain on track to deliver double-digit organic net sales growth for the Pet segment in the second half of fiscal '23, with a back-half segment operating profit margin ahead of our Q2 result.

Moving on to our North America Foodservice segment results on slide 19, organic net sales grew 19 percent in the quarter, driven primarily by positive price/mix. Market index pricing on bakery flour was only a 1-point benefit in the quarter.

On the bottom line, third-quarter segment operating profit more than doubled to \$82 million dollars, driven by benefits from pricing and improved product mix, partially offset by higher input costs.

Third-quarter International segment results are summarized on slide 20. Organic net sales were up 8 percent this quarter, driven by broad-based growth across Europe & Australia, our Distributor Markets, Brazil, and China.

With the Yogurt divestiture and Ice Cream recall now behind us, third-quarter segment operating profit for International was up 27 percent, which represented a sharp improvement from the profit declines we reported in the first half. Q3 profit growth was driven primarily by positive price/mix and lower SG&A expenses, partially offset by higher input costs and lower volume, including the continued impact of the Dough divestitures, which we will lap by the end of this fiscal year.

Slide 21 summarizes our joint venture results in the third quarter. Cereal Partners Worldwide net sales were up 2 percent in constant currency and Häagen-Dazs Japan net sales were up 1 percent, with both results reflecting favorable price/mix, partially offset by lower volume.

Third-quarter combined after-tax earnings from joint ventures totaled \$13 million dollars compared to \$30 million dollars a year ago, driven primarily by higher input costs and unfavorable nonrecurring discrete tax items at CPW, partially offset by favorable CPW price/mix.

Turning to total company margin results on slide 22, our third-quarter adjusted gross margin increased 240 basis points versus last year to 33.8 percent, driven by positive price/mix and HMM cost savings, partially offset by mid-teens input cost inflation and higher other cost of goods sold. We've been pleased with our ongoing margin recovery as our pricing and productivity continue to catch up to the cumulative inflation we've seen over the past two years. However, we still have more work to do, as our adjusted gross margin over the past 4 quarters is still roughly 50 basis points below fiscal '19 levels.

Adjusted operating profit margin increased 80 basis points in the quarter to 15.7 percent, driven by higher adjusted gross margin, partially offset by higher SG&A expenses.

Slide 23 summarizes other noteworthy Q3 income statement items:

- Adjusted unallocated corporate expenses increased \$89 million dollars in the quarter, primarily reflecting higher compensation and benefit expenses, corporate charitable contributions, and capability investments this year.
- Net interest expense increased \$12 million dollars, driven by higher interest rates, partially offset by lower average long-term debt balances.
- The adjusted effective tax rate for the quarter was 21.6 percent compared to 21.0 percent a year ago.
- And average diluted shares outstanding in the quarter were down 2 percent to 599 million shares, reflecting our net share repurchase activity.

Our nine-month fiscal 2023 results are summarized on slide 24. Net sales of \$15.1 billion dollars were up 7 percent, including a 4-point headwind from net divestiture and acquisition activity and 1 point of unfavorable foreign currency exchange. Organic net sales increased 12 percent, driven by positive organic price/mix, partially offset by lower organic pound volume. Year-to-date adjusted operating profit of \$2.6 billion dollars

increased 11 percent in constant currency. And adjusted diluted earnings per share of \$3.18 were up 14 percent in constant currency.

Turning to the balance sheet and cash flow on slide 25.

- While we drove strong growth in adjusted net earnings in the first nine months of fiscal '23, our operating cash flow was down from \$2.2 billion dollars a year ago to \$2 billion this year, driven primarily driven by an increase in inventory and higher cash tax payments.
- Year-to-date capital investments totaled \$351 million dollars.
- And we returned nearly \$2 billion dollars in cash to shareholders in the first nine months of the year through dividends and net share repurchases.

On slide 26, you can see our outlook for fiscal 2023. Relative to our prior update, we continued to post strong performance in North America Retail, we delivered the expected acceleration in our Pet topline results, and we saw encouraging improvement in operating profit results for North America Foodservice and International.

With stronger and more broad-based business momentum, we have raised our guidance and now expect organic net sales to increase 10 to 11 percent, adjusted operating profit to grow 7 to 8 percent in constant currency, and adjusted diluted earnings per share to grow 8 to 9 percent in constant currency. These profit and EPS ranges include a 3-point net headwind from divestitures and acquisitions and an estimated 1-point headwind from the ice cream recall.

Additionally, we continue to expect free cash flow conversion will be at least 90 percent of adjusted after-tax earnings.

These guidance ranges imply a deceleration in net sales and profit growth in the fourth quarter, driven by a much more challenging comparison in last year's Q4. On a two-year basis, our guidance assumes our growth in Q4 is generally consistent with Q3.

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

Jeff Harmening

Thanks, Kofi. Let me close with a few thoughts.

We're advancing our Accelerate strategy and executing well on our Fiscal '23 priorities. We built on our positive momentum in Q3 and generated broad-based growth across our segments. Our brands continue to win with consumers, and we plan to sustain this momentum by investing further in brand building, innovation, and capabilities that will drive future growth. And we're on track to deliver a strong year, having raised guidance yet again this quarter.

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).