GENERAL MILLS FISCAL 2025 Q2 EARNINGS CALL

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CORPORATE PARTICIPANTS

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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 Corporate Finance. Thank you for listening to General Mills' prepared remarks for our fiscal 2025 second-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 housekeeping items.

First, on our website, you will 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. And with that, I will turn it over to Jeff.

Jeff Harmening

Thank you, Jeff, and good morning, everyone.

Entering fiscal 2025, our top priority was to accelerate our organic net sales growth, and specifically our volume growth, by delivering remarkable experiences to consumers across our leading food brands. As we look at the first half of the year, we made encouraging progress accelerating our volume growth and market share trends, including returning our North America Pet business to growth. General Mills' first-half organic volume growth was 4 points better than our fiscal '24 result, and we drove a significant increase in the proportion of our business growing share. Our pound share has improved most notably, with dollar share improving at a slower rate, as we expected, given our investments to increase value for consumers.

These results are due to our continued focus on delivering Remarkable Experiences to consumers across the total product offering. We are investing to bring consumers superior products and benefits, at the right value, supported with remarkable brand building and omnichannel visibility. This work drove improved performance on many important businesses such as pet food, cereal, fruit snacks, and our Foodservice product lines. At the same time, we have more work to do in other places, with Refrigerated Dough offering the biggest opportunity for improvement, and challenging consumer trends in China continuing to present a headwind in that market.

To achieve and build on our broad-based improvements in volume and share, we've stepped up our investment to bring greater value to consumers, which results in a lower outlook on operating profit and EPS in fiscal 2025. Amidst a dynamic and uncertain macroeconomic backdrop for consumers, we believe this is the right choice to further strengthen the remarkability of our offerings, which will better position General Mills for sustainable growth in fiscal '26 and beyond.

Our Q2 results are summarized on slide 5. Organic net sales were up 1%, adjusted operating profit was up 7% in constant currency, and adjusted diluted EPS was up 12% in constant currency. These results were ahead of our expectations, especially on the bottom line, even as our outlook on the year has come down. The key reason for this unusual difference is that our Q2 results benefited from timing-related items that drove a 1.5-point benefit to net sales and a 6-point benefit to operating profit and EPS, all of which are expected to reverse in the second half. Kofi will provide more context on these items and our back-half expectations later in the presentation.

Slide 6 outlines our three key priorities for fiscal 2025. As I mentioned up front, our number one priority is to accelerate our organic sales growth by delivering remarkable consumer experiences across our leading food brands, resulting in a stronger volume and improved market share performance. Second, we will create fuel for investment by generating strong levels of HMM cost savings to offset inflation and reinvest back into our brands. And third, we will continue to drive strong cash generation while maintaining our disciplined approach to capital allocation.

Slide 7 shows our pound and dollar share performance through the first half of fiscal 2025. We strengthened our competitiveness in Q2, with 56% of our priority businesses growing or holding pound share and 38% growing or holding dollar share, both of which were significant improvements from Q1 and fiscal 2024 levels.

Importantly, all four segments drove improved pound and dollar share trends in Q2, and we saw our U.S. pet food business return to pound share growth and held dollar share for the first time in more than two years. We'll look to build on this positive share momentum as we move through the second half of fiscal '25.

We're seeing encouraging, broad-based improvement in our competitiveness across North America Retail as well. North America Retail's pound and dollar trends strengthened in Q2 in seven of our top ten U.S. retail categories. Nearly 60% of our U.S. retail priority businesses grew or held pound share in Q2. And our results on dollar share moved up to 50% growing or holding share over the past month as we returned our U.S. cereal business to dollar share growth behind great consumer news, advertising, and merchandising execution, including successful campaigns with the Kelce Brothers and Chex Holiday Season.

These share improvements have translated into strengthened retail sales growth across most of our U.S. portfolio from Q1 to Q2. Those gains have been largely offset, however, by a step back on refrigerated dough, which has had a disappointing start to the key baking season. As we move to the second half, we'll build on our improving momentum on businesses like cereal, fruit snacks, Mexican food, and soup, and we'll step up our plans and reinvest to improve our trends on refrigerated dough.

Our plan for refrigerated dough this year included product renovation news, stronger marketing behind the Pillsbury Doughboy, and targeted investments in value. As we moved through the second quarter, it became clear that our product news and media support were not breaking through because we didn't have the right value for consumers at the shelf.

We've taken a number of actions recently to reverse the trends on refrigerated dough. We've already brought more value to consumers in December by adding investment to narrow price gaps across a broader range of items. We're stepping up our taste renovation news in the second half across 30% of our portfolio, with new "more cinnamon" news on Pillsbury cinnamon rolls and continued support behind our "more flaky layers" news on biscuits. We're launching new Cookie varieties, including Monster Cookie and Double Chocolate flavors as well as Grinch holiday shapes, to accelerate the strong growth we've been delivering since we unlocked new capacity earlier this year. And we're significantly increasing our media support in the third quarter to ensure Pillsbury has greater visibility through the remainder of key baking season. The return of the Doughboy in our new campaign is working, and we expect media investment to be up more than 40% on our canned dough line in Q3.

Stepping back, we've driven tremendous growth on Pillsbury refrigerated dough over the past five years. Getting this business back on track will be key to improving our North America Retail growth prospects. We're confident that the actions we're taking to increase remarkability will improve our momentum going forward.

Turning to North America Pet, I'm proud of the continued progress we've made to restore this business to growth by focusing on Blue Buffalo's ingredient superiority and executing our improvement plans across the portfolio. While we're not all the way to where we want to be, we've continued to drive sequential improvement in our market share, with our pound share growing and dollar share flat in the U.S. in Q2. And we like the positive momentum we're seeing across our key product lines.

We drove high-single digit retail sales growth on our Life Protection Formula dry dog food business in Q2, leveraging compelling advertising focused on ingredient superiority.

We've dramatically reduced the retail sales declines on our Wilderness dry dog food line by addressing a few key challenges. We launched new comparison advertising highlighting Wilderness's higher protein content versus a key competitor, we introduced smaller bag sizes to provide lower absolute price points for pet parents, and we reintroduced grain-free varieties that are driving incremental household penetration gains.

On wet food, we adjusted our price points on targeted offerings to get below key price cliffs, and we're seeing positive returns.

Our treats portfolio is where we have the most work still to do, but even here we're seeing green shoots, with better shelf visibility and good merchandising execution driving improved turns at key customers.

And we continued to strengthen our pet portfolio earlier this quarter with the announcement of our proposed acquisition of Whitebridge Pet Brands' North American premium cat feeding and pet treating business, which includes the Tiki Pet and Cloud Star portfolio of brands. The jewel of this acquisition is the Tiki Cat brand, which has a strong presence in wet cat food, the fastest-growing segment within the U.S. pet food category and an area where Blue Buffalo is underdeveloped. Retail sales for Tiki Cat were up more than 20% over the past year, and with household penetration still below 2%, we see tremendous runway for future growth. We expect the transaction to close shortly, and we're looking forward to welcoming the Whitebridge team to General Mills and working with them to expand our mission of loving and feeding more pets like family.

In North America Foodservice, we continue to deliver strong market share growth across the segment, with more than 70% of our priority businesses growing or holding share in Q2.

Our world-class R&D team is providing category-leading renovations in service of our operators, leveraging the Remarkable Experience Framework. In Q2, we launched a product renovation on our Baked Biscuit line, delivering improved product quality while also doubling the hold time, which helps operators better manage labor shortages and minimize product waste. We're already seeing strong excitement and sell-in with key distributor partners on the back of this news.

We also continued to drive strong share results in non-commercial channels, including continued share growth in K-12 schools. We've built on our leading position in cereal thanks to our ongoing commitment to nutritional leadership, leveraging our 2 Equivalent Grain packaging innovation and our reduced sugar offerings.

In International, we made progress stepping up our market share performance on our global platforms, while continuing to navigate challenging macro headwinds in China. We grew or maintained share on 45% of our priority businesses in Q2, driven by improving share performance in our distributor markets and Europe & Australia regions. This included strong performance on Häagen-Dazs, which delivered share growth in retail outlets in Q2, fueled by increased distribution on core flavors like Belgian Chocolate and Strawberry. Our China business continued to see double-digit traffic declines in our Häagen-Dazs shops in Q2, but we're working to mitigate those headwinds by expanding distribution in retail, foodservice, and E-commerce channels.

Our second enterprise priority for fiscal '25 is to create fuel for reinvestment back into our business through industry-leading HMM cost savings. Even as we have added incremental investment to support stronger volume and share growth, the midpoint of our updated guidance ranges still translates into an adjusted operating profit margin profile in fiscal '25 that is higher than our pre-pandemic margin.

We've done that by delivering record levels of HMM, including a forecast for 5% savings in our cost of goods sold this year, which is ahead of our long-term trend. This elevated HMM delivery continues to provide fuel to invest into our brands and capabilities for the long term.

For our third priority – continuing to drive strong cash generation – we expect to deliver at least 95% free cash flow conversion in fiscal '25, consistent with the guidance we provided at the start of the year. We remain committed to our long-standing record of deploying our cash in a disciplined and shareholder-friendly manner through capital investments, dividend growth, M&A, and share repurchases.

On M&A, we continue to advance our portfolio reshaping ambitions and improve the growth profile of our business. Once our North American Yogurt divestitures and Whitebridge Pet acquisition are closed, General Mills will have turned over approximately 30% of our net sales base since fiscal 2018. In terms of future M&A, our near-term focus is on ensuring our organization is set up to deliver seamless transitions for each of those three transactions. As we look further out, we remain focused on bolt-on acquisitions as our most likely opportunities for M&A.

Before transitioning to Kofi, I'll highlight our updated fiscal 2025 guidance on slide 17.

We reaffirmed our organic net sales guidance, with our current expectations toward the lower end of the range. Adjusted operating profit and adjusted diluted EPS growth are each expected to be two points below our prior ranges, reflecting the incremental investments we're making to support our volume and market share gains. And we remain on track to deliver free cash flow conversion in line with our previous expectation.

With that, let me turn it over to Kofi to go into more details on our second-quarter results and the assumptions behind our updated outlook for the year.

Kofi Bruce

Thanks, Jeff. And hello everyone.
Our second-quarter financial results are summarized on slide 19. Reported net sales of $5.2 billion were up 2%, and organic net sales were up 1%.

Adjusted operating profit of $1.1 billion was up 7% in constant currency, driven by HMM cost savings and higher volume, partially offset by input cost inflation, unfavorable price/mix, and higher SG&A expenses. Adjusted diluted earnings per share totaled $1.40 in the quarter and were up 12% in constant currency, driven by higher adjusted operating profit and a lower share count.

As Jeff mentioned, our Q2 results were impacted by certain favorable timing items, including an increase in retailer inventory in NAR due in part to the Thanksgiving holiday shifting from the final week of Q2 last year to the first week of Q3 this year, as well as favorable trade and other expense timing.

These items represented approximately a 1.5-point benefit to net sales and a 6-point benefit to operating profit and EPS in the quarter. We expect these timing items to reverse in the second half, with most of the impact in Q3.

Slide 20 summarizes the components of total company net sales growth. Organic net sales increased 1% in the quarter, driven by higher organic pound volume, partially offset by lower price/mix. Foreign exchange and the net impact of acquisitions and divestitures were not material to net sales in Q2.

Shifting to segment results, second-quarter organic net sales for North America Retail were up 1%. Our organic net sales outpaced Nielsen-measured U.S. retail sales by roughly two points, driven by an increase in retailer inventory due in part to the impact of the later Thanksgiving timing. We expect this retailer inventory build to reverse in the third quarter. Organic net sales in Q2 also benefitted from faster growth in non-measured channels.

At the operating unit level, net sales for U.S. Morning Foods increased 4% and U.S. Snacks were up 1%. Net sales for U.S. Meals & Baking Solutions were down 1% and Canada net sales declined 4% in constant currency.

As Jeff noted, we strengthened our competitiveness in NAR, with our pound and dollar trends improving in seven of our top ten U.S. categories from Q1 to Q2.

On the bottom line, constant-currency segment operating profit in NAR essentially matched year-ago results, driven by HMM cost savings and favorable price/mix, offset by input cost inflation, higher other supply chain costs, and lower volume.

Moving on to slide 22, second-quarter organic net sales for our North America Pet segment were up 5%. This result outpaced our Nielsen-measured retail sales performance by roughly four points. The difference reflected a rebuild of retailer inventory after significant reductions in the second quarters of fiscal '23 and fiscal '24. We do not expect to see a material change in retailer inventory in the second half. Net sales were up high-single digits for dry food, up mid-single digits for wet food, and up low-single digits for treats.

Q2 represented our fifth consecutive quarter of sequential market share improvement for our U.S. pet food business, with our pound share growing and our dollar share flat in the quarter.

On the bottom line, second-quarter North America Pet segment operating profit was up 36% in constant currency, driven by HMM cost savings, higher volume, and lower other supply chain costs, partially offset by unfavorable price/mix and higher SG&A expenses, including an increase in media investment.

North America Foodservice organic net sales were up 8% in the quarter, driven by a mid-single digit increase in organic pound volume and positive price/mix. Net sales results were led by strong growth on breads, cereal, and frozen meals.

We continued to drive strong market share gains year to date across key channels including K-12 schools, healthcare, and colleges and universities.

On the bottom line, second-quarter North America Foodservice segment operating profit was up 24% in constant currency, driven by favorable price/mix.

Moving to slide 24, second-quarter organic net sales for our International segment were down 3%, driven by declines in China and Brazil, partially offset by continued growth in our distributor markets as well as Europe & Australia. As Jeff mentioned, continued macroeconomic consumer headwinds in China drove double-digit declines for our Häagen-Dazs shops traffic in the market, and we are working to mitigate those headwinds by expanding Häagen-Dazs distribution across retail, foodservice, and E-commerce channels.

Within our retail outlets, we've continued to drive sequential improvement in market share on Häagen-Dazs, reaching share growth in Q2.

Second-quarter segment operating profit totaled $24 million compared to $35 million a year ago, driven by unfavorable price/mix and higher SG&A expenses, partially offset by HMM cost savings.

Slide 25 summarizes our joint ventures results. In Q2, Cereal Partners Worldwide net sales were up 2% in constant currency, with growth in Latin America partially offset by declines in France and the UK. Häagen-Dazs Japan net sales were up 1% in constant currency, reflecting growth on our handheld formats, partially offset by lower contributions from the timing of new product launches in cup formats.

Second-quarter combined after-tax earnings from joint ventures of $30 million were up 23% in constant currency, driven by lower input costs and favorable price/mix at CPW, partially offset by higher SG&A expenses and a decrease in volume at CPW, and higher input costs at Häagen-Dazs Japan.

Turning to margin results, our second-quarter adjusted gross margin increased 130 basis points to 36.3% of net sales, driven by HMM cost savings, partially offset by input cost inflation and unfavorable price/mix.

Our second-quarter adjusted operating profit margin increased 100 basis points to 20.3%, with benefits from higher adjusted gross margin partially offset by higher SG&A expenses as a percent of net sales. The timing benefit I referenced earlier added roughly 100 basis points to our Q2 adjusted operating profit margin, and we expect that to reverse largely in Q3.

Moving on to other noteworthy Q2 income-statement items.
Adjusted unallocated corporate expenses decreased $23 million in the quarter, driven by certain favorable one-time items. Second-quarter net interest expense was up $7 million, driven by higher average long-term debt balances. The adjusted effective tax rate of 20.1% compared to 20.8% a year ago, driven by favorable earnings mix by jurisdiction compared to last year. Finally, average diluted shares outstanding in the quarter were down 4% to 560 million, reflecting our continued net share repurchase activity.

Our first-half financial results are summarized on slide 28. Net sales of $10.1 billion essentially matched year-ago results on an organic basis. Adjusted operating profit of $1.9 billion was up 2% in constant currency, while adjusted diluted earnings per share totaled $2.47 and were up 6% in constant currency.

Turning to the balance sheet and cash flow on slide 29, first-half operating cash flow increased 19% to $1.8 billion, driven primarily by a change in accounts payable, partially offset by changes in inventory and other current assets. Capital investments in the first half totaled $301 million. And we returned $1.2 billion in cash to shareholders in the first six months of the year through dividends and net share repurchases.

On slide 30, we've provided a few updates to our key financial assumptions for fiscal 2025. As Jeff stated earlier, our improvement in volume and market share is requiring higher promotional investment than we initially planned. A portion of that incremental investment fell in the first half, and we expect a greater portion to hit in the second half.

Within cost of goods sold, we continue to expect HMM cost savings to outpace input cost inflation for the full year. We now expect to generate HMM savings of 5% of COGS, and input cost inflation is now expected to be 4% of COGS in fiscal 2025.

As we look to the second half of fiscal '25, the midpoint of our revised guidance implies adjusted operating profit would be down roughly 8% in constant currency. This reflects a 3-point headwind from the reversal of favorable timing items in the first half, a 3-point headwind from incremental growth investments, and a 2-point headwind from a partial reset of incentive compensation.

With these assumptions in mind, our updated annual Fiscal 2025 Financial Outlook can be seen on slide 31.

Organic net sales are still expected to range between flat and up 1%, with our current outlook targeting the lower end of that range.

Adjusted operating profit is now expected to be down 4% to down 2% in constant currency.

Adjusted diluted Earnings Per Share are now expected to be down 3% to down 1% in constant currency.

And we continue to expect free cash flow conversion to be at least 95% of adjusted after-tax earnings.

Note that our outlook does not include the impact of the North American Yogurt divestitures nor the Whitebridge Pet Brands acquisition, as those transactions have yet to close.

With that, let me turn it back to Jeff for some closing remarks.

Jeff Harmening

Thanks, Kofi. I'll close out with a few thoughts. We're encouraged by the progress we've made to accelerate our volume growth and improve our market share trends, driven by our continued focus on delivering remarkable experiences to consumers across the total product offering. To deliver those gains and build on them going forward, we've made incremental investments to bring consumers greater value amid a challenging macroeconomic backdrop. I'm confident in our teams, who are operating with agility and doing what's right for our consumers. And I'm confident that the actions we're taking will better position General Mills for sustained growth in fiscal 2026 and beyond.