



**General Mills**

**Second Quarter Fiscal 2022 Earnings Webcast**

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## CORPORATE PARTICIPANTS

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**Jeff Harmening**, *Chairman and Chief Executive Officer*

**Jonathon Nudi**, *Group President, North America Retail*

**Kofi Bruce**, *Chief Financial Officer*

## PRESENTATION

**Jeff Siemon**

Good morning. Thank you for listening to our prepared remarks on General Mills' Second 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. Included in this morning's presentation are Jeff Harmening, our Chairman and CEO; Jon Nudi, President of our North America Retail Segment; 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 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 start our remarks by summarizing today's key messages. We continue to compete effectively and execute well on the second quarter in an increasingly challenging operating environment. In the face of an unprecedented combination of input cost inflation and supply chain disruption, we moved quickly to keep our trusted brands in front of consumers. We saw additional cost headwinds come our way during the quarter, and we responded with incremental pricing actions that will go into effect in Q3. We also took further steps in Q2 to reshape our portfolio for stronger, more profitable growth, in line with our Accelerate strategy. Finally, amid so much volatility, I'm pleased to say that with our updated Fiscal '22 guidance we now expect to meet or exceed each of our key financial targets for the year.

Slide 5 summarizes our financial performance for the second quarter and first half of the fiscal year. In Q2, our solid execution, competitive service levels, and net price realization contributed to organic net sales growth of 5%, while high single-digit input cost inflation and elevated costs related to supply chain

disruptions outstripped our pricing and productivity efforts, resulting in a 6% decline in constant currency adjusted operating profit. Constant currency adjusted diluted earnings per share was down 7% in the quarter.

First half results were similar to Q2, with an organic net sales up 4% and adjusted operating profit and adjusted diluted earnings per share each down 4% in constant currency. You can see the strength of our top- and bottom-line performance through the pandemic, with two-year compound growth rates of 6%, 4% and 6% in the first half respectively for organic net sales, constant currency adjusted operating profit, and constant currency adjusted diluted EPS.

When we started Fiscal '22, we outlined three priorities that will be critical to our success this year. First, we will continue to compete effectively by executing our Accelerate strategy. Second, we will successfully navigate the dynamic supply chain environment. And third, we will execute our portfolio reshaping actions without disrupting our base business. Let me share a few examples of how we're delivering and driving strong results across these three priorities thus far this year.

General Mills is winning in the marketplace. We're competing effectively in Fiscal '22, holding or growing market share in 62% of our priority businesses year to date. This includes important global platforms such as cereal, pet, ice cream, and Mexican food, as well as local gem brands like Pillsbury refrigerated dough, Wanchai Ferry frozen dumplings in China, and our fruit snacks business in the U.S. This performance has been driven by our continued focus on brand building, innovation, and execution, supported with strong levels of investment. It's the continuation of an ongoing, multiyear story of improved competitiveness that started before the pandemic and continues through the pandemic.

The current operating environment is as dynamic and challenging as I've seen in my 27-plus years in the industry. At home food demand remained elevated, input cost inflation is at a 10-year high, and labor shortages and other issues are causing disruptions across our supply chain, from our suppliers to manufacturing to distribution. These disruptions are driving down service levels and driving up costs above and beyond inflation throughout the industry. In the face of these challenges, we stepped up our agility and responsiveness to ensure our customers and consumers can access the food they need.

We've also taken actions to manage cost and support our profitability, including leveraging our strategic revenue management capability to execute significant pricing actions across our portfolio, resulting in organic price mix stepping up from Q1 to Q2. We expect a further increase in price mix in the back half of the year. Later in the presentation, Jon Nudi will share examples of how we're addressing these challenges in North America, where inflation and supply chain disruptions have been particularly acute.

Shifting gears to portfolio reshaping, we executed several strategic moves in the first half of the year. In July, we completed the acquisition of Nudges, True Chews, and Top Chews dog treat brands from Tyson Foods, strengthening our position in the fast-growing U.S. petfood category. Dog treats are the second largest segment in petfood, at an estimated \$7 billion in retail sales and growing at a high single-digit rate. Combining our newly acquired brands with our Blue Buffalo treats business gives us a powerful treats portfolio that is primed to deliver on pet parents' increasing interest in wholesome, natural treating. As we continue to integrate these brands into our pet segment, we are confident in the growth and the value creation opportunities ahead. In fact, retail sales for Nudges, True Chews, and Top Chews were up 22% in measured channels in the first half of the year, adding to the 16% growth for our legacy Blue Buffalo treats business.

Our second significant portfolio reshaping action this year was the completion of our European Yoplait divestiture, which closed at the end of November. This transaction improves our enterprise growth profile, enhances our margin, and allows us to focus our resources on our faster growing priority businesses. Yoplait will remain one of our local gem brands in the U.S. and in Canada, where we'll now operate on a

wholly owned basis. Kofi will share additional detail on the financial impact of this transaction later in the presentation.

Also, at the end of November, we announced the sale of our dough business in Germany, the U.K., and Ireland to Cérélia. These businesses, which represent less than 5% of our Europe and Australia segment net sales, include the Knack & Back and Jus-Rol brands. We expect to close these transactions by the end of Fiscal 2022, subject to competition approvals. Overall, these three transactions represent further progress on our Accelerate strategy, which include clear priorities on where to play across geographies, as well as platforms and brands to drive long-term, superior shareholder returns.

We've made significant progress here and there is still more work to do. We continue to look for opportunities to further reshape our portfolio through acquisitions and divestitures. 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 I mentioned last quarter, we plan to regularly highlight different aspects of our Force for Good work on our earnings calls this year, touching on four priority areas: regenerating our planet, improving food security, protecting our people, and strengthening our communities.

As we enter an important season of giving for many around the world, we thought it would be a good opportunity to highlight General Mills' impact on our communities, and in particular our commitment to charitable giving. In Fiscal 2021, General Mills donated approximately \$100 million to charitable causes across our key global markets. Roughly 60% of that was in the form of food donations to the world's leading food bank networks, including Feeding America and the Global Food Banking Network, translating into 41 million meals for families and individuals.

During the last school year, more than 80,000 schools in the U.S. benefitted from our Box Tops for Education program, which has provided more than \$940 million to schools since the program began in 1996. In addition, we recently increased our focus and funding on closing the racial disparity gaps in household food security and improving equitable food access. Even as the pandemic has continued to disrupt communities and organizations everywhere, General Mills employees continue to give back through COVID-friendly volunteerism events, as well as through our workplace giving program. I am proud of our Company's longstanding commitment to supporting communities and using their charitable giving to advance key social and environmental outcomes. Not only are these actions good for people and the planet, they are also good for our business.

With that, I pass it to Jon Nudi, who will cover our North America retail segment.

**Jonathon Nudi**

Thanks, Jeff, and hello, everyone.

I appreciate the opportunity to provide an update on our North America retail business today. Let me begin with a quick overview of our segment, which generated \$11 billion in net sales last year.

We operate a broad portfolio of trusted, leading brands across more than 25 categories in the U.S. and Canada. We serve millions of consumers every day and our products are enjoyed by around 95% of households each year. North America retail has driven strong growth in net sales and operating profit over the past two years. While the rise of at home demand from the pandemic has been a key contributor, we've also outperformed our competition during this time through an improved execution, stronger support behind brand building and innovation, and greater alignment of our people and structure with our strategy.

Our top priority as a company in recent years has been to compete effectively. I'm tremendously proud of the way that we've improved our competitiveness in North America retail over the past four years, leveraging stronger brand building and innovation that meets consumers' needs. Consumer demand remains elevated relative to pre-pandemic levels. Our second quarter U.S. retail sales were up 4% versus last year and up 6% on a two-year compound basis, an acceleration from the trend in the previous four quarters.

We continue to compete well amid this demand picture, as we have for the past several years. Before the pandemic started, we were holding or growing share in 55% of our U.S. retail business. When the pandemic started, that metric improved to 65%, and our strong performance has continued in Fiscal '22 with more than 60% of our U.S. retail sales base holding or growing share year to date. These results have been led by long-term share gains in key categories, including cereal, refrigerated dough, fruit snacks, and Mexican foods.

A strong focus on the fundamentals has fueled a multiyear success story in U.S. cereal, where General Mills has posted market share gains for 37 consecutive months, 12 consecutive quarters, and four consecutive years, strengthening our position as the number one player in the category. To be clear, our performance is not driven by short-term competitive supply chain dislocations. It's the result of consistently bringing compelling consumer ideas, relevant innovation, strong levels of investment, and excellent execution to the best brands in the category.

One product innovation that exemplifies this is Cheerios Oat Crunch. We first launched this subline and cinnamon variety two years ago, bringing a more complex taste and texture to the largest franchise in the category, appealing to older children and adults. Oat Crunch has proven to be highly incremental to the Cheerios franchise and the category and now represents 1% market share in the U.S. cereal category across three great tasting varieties.

Our track record in Pillsbury refrigerated dough is equally compelling. Retail sales for this business have grown 30% in the last four years. We're working on our fourth consecutive year expanding our category leadership. Our market share is now at 72% and household penetration has reached 58%, which is up almost five points versus pre-pandemic levels. Consumers are consistently finding that Pillsbury delivers what they need for meal and holiday solutions: something comforting, delicious, convenient, and affordable. Our imagine the memories you'll make messaging is resonating with consumers during this key baking season.

One critical way we're working to continue future growth in Pillsbury is to increase our relevance with Hispanic consumers. We're shifting our activation plans and doing a better job of intentionally reaching out to this growing cohort. We've seen an increase of almost four points in Pillsbury's Hispanic household penetration over the past two years. We're excited about continuing to provide products and solutions to these new consumers and solidifying our growth for years to come.

In fruit snacks, we've expanded our U.S. share leadership in recent years, driven by our breadth and depth of products that serve the needs of all ages, from Tots to Teens. This includes our Mott's real fruit and veggie juice shakes, winning Kid Equities like Space Jam shakes, fun new varieties on our Annie's line, and differentiated brands like Fruit Roll-Ups, Fruit by the Foot, and Gushers. Before the pandemic, our fruit snacks business was driving growth by expanding into new formats and into the seasonal aisle to capture new usage occasions.

When the pandemic hit, we responded quickly and continued on our motto by delivering on consumers' desires for frictionless, all-family snacking. These efforts have helped unlock terrific results, including year-to-date retail sales growth of 18%. We significantly increased our capacity in recent years to keep pace with the nearly 40% increase in retail sales since Fiscal 2018. As we look ahead, we expect to

invest further in capacity to support what we see as a long runway of continued growth for this attractive business.

Finally, Old El Paso has led the Mexican food category with three-plus years of share gains and compelling consumer news and innovation. We've introduced exciting product innovations like bold flavored stand-up taco shells, Street Taco Kits, and squeeze sauces. We're also bringing taco pockets to North American retail in 2022 after a hugely successful launch in Europe and Australia last year. Old El Paso has been leveraging our connected commerce capability, utilizing data-driven personalized messaging with shoppable media to drive improved ROIs. This has not only driven share gains, but it has helped drive nearly four points of increased household penetration and 39% growth in retail sales over the past four years.

Shifting gears, the consumer landscape continues to evolve as we face new variants and see ongoing fluctuations in COVID case rates. While the magnitude varies by market and by month, what has remained constant is that at home food demand remains elevated relative to pre-pandemic levels. As Jeff mentioned earlier, the supply chain environment is as challenging as we've seen in decades. We, like the rest of the industry, are facing rising input cost inflation. In fact, our North American market basket has reached its highest point in recent history.

To add to the challenge, industry-wide shortages in the labor market are impacting every part of the supply chain, adding significant costs that are above and beyond inflation. We're seeing record levels of disruptions across our raw material suppliers, internal and external production facilities, our own distribution centers, our customers' warehouses, and the logistics networks required to connect each of these elements of the supply chain. These disruptions are resulting in service challenges and elevated costs across the industry.

For example, when a supplier's labor shortages limit their ability to deliver a key ingredient to one of our factories, we either need to shut down our lines, or reposition that ingredient from another manufacturing location, both of which increase cost. Another example, we may be able to procure ingredients, manufacture the product and have it ready to ship. But if our carrier can't make the scheduled pickup because of a driver shortage, we run the risk of missing our customers' on-time and in-full deliver window, thus leading to fines and fees. These examples are just a few of the many challenges we and the rest of the industry are facing daily.

In the face of labor shortages and disruptions across the supply chain, our teams are focused on remaining agile to secure supply and ensure our customers and consumers can get access to the food they need. For example, so far this year we've reinstated control tower teams that we set up at the outset of the pandemic, helping to facilitate quicker decision making. We've secured alternative sources of supply and increased internal inventory levels on some constrained raw materials. We've developed new risk metrics in order to proactively identify challenges. We've increased the frequency of our communication with our vendors and our customers to ensure that we're working as one supply chain.

I'm pleased to say these actions are making a difference and are enabling us to service our customers better than our competition, which we can see in Nielsen measured data. In the second quarter, our on-shelf availability in the U.S. outpaced our categories. Our service is better than our leading competitor in seven of our top 10 categories and we under indexed on lost sales from out of stocks by almost 20%. We have also seen our share distribution grow every month since the onset of the pandemic. While our service levels remain in the mid-80% range compared to the high 90% that we typically deliver in a normal environment, we hear from our customers that our performance during the pandemic has been consistently leading among food manufacturers.

At the same time, we are leveraging our enhanced SRM capabilities to address the significant inflation and cost related to supply chain disruptions. Already this fiscal year we have announced multiple rounds of pricing across our portfolio, utilizing all four SRM levers: list pricing, promotion optimization, pack price architecture, and mix management. We're seeing the impact of these actions flowing through in the market, with our average unit prices rising steadily over the course of the year.

As I look at the business today, I am struck by the advancements we've made in North American retail in recent years. I am confident we're a stronger business today than we were before the pandemic. Our brands are more relevant with consumers. Our household penetration is up. We've strengthened critical capabilities like connected commerce and SRM, and our team is more agile today than it has ever been before.

As we enter the holiday season, I'm reminded of the importance of our work. Families across the U.S. and Canada are able to enjoy holiday staples such as Pillsbury crescent rolls, Betty Crocker cookies, and Chex party mix because of what we do every day. I'm proud of the progress we've made in North American retail over the past few years. I'm excited about our opportunity to build on that momentum and drive profitable growth in the years ahead.

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

### **Kofi Bruce**

Thanks, Jon, and hello, everyone.

Let's start with our second quarter financial results on Slide 24.

Net sales of \$5 billion were up 6%. Organic net sales grew 5% in the quarter, reflecting our strong execution, broad based SRM actions, and continued elevated demand versus the pre-pandemic period.

Adjusted operating profit of \$821 million was down 6% in constant currency, driven primarily by input cost inflation and higher other cost of goods sold, including costs related to supply chain disruptions, partially offset by favorable price mix, holistic margin management cost savings, and lower SG&A expenses.

Adjusted diluted earnings per share totaled \$0.99 in the quarter, down 7% in constant currency. On a two-year compound growth basis, second quarter organic net sales were up 6%. Adjusted operating profit was flat in constant currency and adjusted diluted EPS grew 1% in constant currency.

Slide 25 summarizes the components of our net sales growth in the quarter. Organic net sales were up 5%, driven by positive organic price/mix. Foreign exchange was a one-point benefit in the quarter, and our acquisition and divestiture activity added one point to reported net sales growth.

Now let's turn to segment results, beginning with North America retail on Slide 26. Second quarter organic net sales were up 1%, driven primarily by favorable price/mix, partially offset by lower volume. Because of the service challenges caused by the current supply chain environment, our net sales lagged retail sales growth by roughly two points in the quarter. Net sales growth in U.S. snacks and U.S. cereal were partially offset by a decline in U.S. meals and baking. On a two-year compound growth basis, second quarter organic net sales were up 5%.

As Jon mentioned, we continue to compete effectively in NAR. Fiscal year to date, we grew or held market share in 62% of our U.S. retail sales and we posted solid share gains in Canada. Second quarter constant currency segment operating profit decreased 8%, 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 flat.

Second quarter net sales for our pet segment increased 29%, including 15 points of benefit from the pet treats acquisition. Organic net sales were up 14% in the quarter, including double-digit growth in both dog food and cat food. On a two-year compound growth basis, second quarter organic net sales were up 16%. In the first half of the fiscal year, the Blue Buffalo brand continued to drive strong retail sales growth and market share gains in measured channels. As Jeff mentioned, the Nudges, True Chews, and Top Chews brands generated year-to-date retail sales growth of 22%.

On the bottom line, segment operating profit increased 10% to \$132 million, driven primarily by higher volume and favorable net price realization and mix, partially offset by higher input costs and higher SG&A expenses. Profit results in the quarter included a one-time inventory adjustment and other acquisition-related expenses totaling \$11 million. On a two-year compound growth basis, constant currency segment operating profit increased 28%.

Turning to convenience stores and food service segment results on Slide 28. Organic net sales grew 23% in the quarter, reflecting increased away-from-home food demand in the U.S., including higher year-over-year consumer traffic in schools, restaurants, lodging, and C-stores, as well as market index pricing on bakery flour. On a two-year compound growth basis, second quarter organic net sales were up 3%. Segment operating profit increased 20% in the quarter, driven primarily by positive price/mix and higher volume, partially offset by higher input costs. On a two-year compound growth basis, constant currency segment operating profit decreased 10%.

In Europe and Australia, second quarter organic net sales were down 2% due to declines in yogurt and dough. On a two-year compound growth basis, organic net sales were flat. We continue to compete effectively, growing year-to-date market share in Mexican food and snack bars. Second quarter segment operating profit totaled \$16 million compared to \$36 million a year ago, driven primarily by higher input costs and lower volume. On a two-year compound growth basis, constant currency segment operating profit was down 35%.

In Asia and Latin America, second quarter organic net sales increased 5%, driven by Yoki meals and snacks in Brazil. On a two-year compound basis, net sales were up 7%. Second quarter segment operating profit increased 40% in constant currency, driven primarily by positive price mix and lower SG&A expenses. On a two-year compound growth basis, constant currency segment operating profit increased 23%.

Slide 31 summarizes our joint venture results in the second quarter. Cereal partners worldwide net sales were down 2% in constant currency, reflecting a difficult comparison against elevated at home demand a year ago. Häagen-Dazs Japan net sales were up 8% in constant currency, including strong contributions from innovation. Second quarter after tax earnings from joint ventures of \$33 million were down 9%, driven by lower profit at CPW. On a two-year compound growth basis, combined after tax earnings were up 15%.

Now, let's turn to total company margin results on Slide 32. While significant benefits from positive price/mix and HMM cost savings were sufficient to offset high single-digit input cost inflation in the quarter, the large step up in cost due to supply chain disruptions, combined with volume deleverage, drove adjusted gross margin down by three points. Adjusted operating profit margin in the quarter was down 200 basis points, driven by lower adjusted gross margin, partially offset by lower SG&A expenses.

As Jeff and Jon mentioned, we're moving quickly to address the increasing cost environment, including announcing incremental SRM actions that will take effect in January, providing a partial benefit in Q3 and



a full benefit in Q4. Slide 33 summarizes other noteworthy Q2 income statement items. Adjusted unallocated corporate expenses increased by \$12 million in the quarter. Net interest expense decreased \$8 million, driven primarily by lower average debt balances. The adjusted effective tax rate for the quarter was in line with last year at 22.3%. Average diluted shares outstanding were down 1%, reflecting our share repurchase activity.

Our Fiscal 2022 first half results are summarized on Slide 34. Net sales of \$9.6 billion were up 5%. Organic net sales increased 4%, driven by positive organic price/mix. Year-to-date adjusted operating profit of \$1.6 billion decreased 4% in constant currency. Adjusted diluted earnings per share of \$1.98 were also down 4% in constant currency. On a two-year compound growth basis, organic net sales were up 6%. Constant currency adjusted operating profit was up 4% and constant currency adjusted diluted EPS was up 6%.

Turning to the balance sheet and cash flow. First half operating cash flow increased 5% to \$1.5 billion, driven primarily by changes in inventory, partially offset by changes in accounts payable. Year-to-date capital investments totaled \$224 million. We returned nearly \$1 billion in cash to shareholders in the first half of the year through dividends and net share repurchases.

Slide 36 provides a brief summary of the financial impact of the Yoplait Europe divestiture, which closed on November 30. We expect the transaction will reduce reported net sales by approximately \$700 million on a 12-month basis. Taking into consideration the associated reduction in operating profit, partially offset by lower interest expense and noncontrolling interest, we expect the divestiture to reduce adjusted diluted EPS by roughly 1% in the first 12 months after the close. From a portfolio standpoint, the transaction significantly increases our Europe and Australia segments focus on our faster growing, higher margin platforms, including Mexican food, ice cream, and snack bars.

On Slide 37, we provided an update on some key financial assumptions for the second half of Fiscal '22. First, we expect price/mix to step up further in the second half, reflecting additional SRM actions that will take effect in January. On the cost side, we expect double-digit input cost inflation in the back half. I should note that at this point in the year we are more than 80% covered on our raw and packaging material spend for Fiscal 2022. On a full year basis, we are now estimating cost of goods sold headwinds to be approximately \$500 million higher than what was assumed in our initial Fiscal 2022 outlook. This includes full year input cost inflation we now estimate to be 8% to 9%, as well as elevated costs related to supply chain disruptions.

While it's difficult to forecast, we expect the operating environment will continue to be challenged by labor shortages and other disruptions in the back half and we expect our second half customer service levers will be generally in line with first half. Finally, from a phasing standpoint, we expect the assumptions to result in back half adjusted diluted EPS growth to be weighted more heavily to Q4.

With these assumptions in mind, our updated Fiscal 2022 financial outlook can be seen on Slide 38. Organic net sales are now expected to increase 4% to 5%, compared to the previous guidance that was toward the higher end of the range of down 1% to 3%. Constant currency adjusted operating profit is expected to be down 1% to 4%, which now includes a one-point drag from the Yoplait Europe divestiture. This compares to the previous guidance that was towards the higher end of the range of down 2% to 4%.

We expect constant currency adjusted diluted EPS to range between down 2% and up 1%, including a one-point headwind from the Yoplait Europe divestiture. This compares to the previous guidance that was towards the higher end of the range of flat to down 2%. We expect free cash flow conversion will be at least 95% of adjusted after tax earnings. Finally, the net impact of divestitures, acquisitions, and foreign currency exchange is expected to reduce full year reported net sales growth by approximately 1%.

Foreign currency is not expected to have a material impact on adjusted operating profit or adjusted diluted EPS.

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

**Jeff Harmening**

Thanks, Kofi.

Before we close, I'd like to take a moment to thank the entire 30,000 strong General Mills team for their passion, perseverance, and performance in these unprecedented times. I'm proud of the way we're growing our core and reshaping our portfolio for the future. I'm more confident than ever that General Mills will emerge from the pandemic with stronger brands and capabilities, and a portfolio better geared to generate profitable growth over the longer 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](http://generalmills.com).