



Prepared Remarks

Investor Relations
P. O. Box 1113
Minneapolis, MN 55440

September 23, 2020

Contact: (analysts) Jeff Siemon: 763-764-2301
(media) Kelsey Roemhildt: 763-764-6364

GENERAL MILLS FIRST QUARTER FISCAL 2021 EARNINGS PREPARED REMARKS TRANSCRIPT

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! Thank you for joining us to hear our prepared remarks on General Mills' first-quarter fiscal 2021 earnings. Later this morning we will hold a live question-and-answer session on today's results, which you can hear via webcast on our investor relations website.

In a moment I'll turn the call over to Jeff Harmening, our Chairman and CEO, and Kofi Bruce, our CFO, but before I do, let me first touch on a few items.

On our website, you will find our first-quarter press release that posted this morning, along with a copy of the presentation. It's important to note that today's remarks will include forward-looking statements that are based on management's current views and assumptions, including facts and assumptions Jeff and Kofi will share related to the potential impact of the COVID-19 pandemic on our results in fiscal '21. 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'll turn you over to my colleagues, beginning with Jeff.

Jeff Harmening

Thanks, Jeff, and good morning everyone.

Today's key messages are listed on slide 4.

First, we delivered exceptional performance this quarter. And it's important to note that our results are not simply an outcome of our category trends. We had been improving our competitiveness and building momentum leading up to the pandemic. We've accelerated over the past two quarters, in part because of increased at-home demand, and because of the strength of our execution. As I'll share in a moment, we drove broad-based market share gains and increased household penetration in Q1.

Second, I'm extremely proud of how we did that. The world changed. And we did too. We quickly adapted and executed to meet the significant challenges of the COVID-19 pandemic. We've kept a sharp focus on wellness and safety, both for our front-line workers and our office employees. As a result, we've continued to execute at a high level and our supply chain has operated without any major disruptions. As we look at Fiscal 2021, our priorities as a company are clear -- and we're delivering on those priorities. We said we would compete effectively, fuel investment in our brands and capabilities, and continue to reduce our leverage -- and we're doing all three well.

And I'm pleased to report that we are resuming dividend growth, ahead of our initial schedule.

The current operating environment has created significant uncertainty, with times of challenge and opportunity.

We've seen a seismic shift in how people eat, with an increase in demand for food at home and a corresponding decrease in demand for food eaten away-from-home. As a reminder, prior to the pandemic, at-home food represented approximately 85 percent of our net sales and away-from-home food represented the remaining 15 percent.

As we look across our segments:

At-home category growth remained high in developed markets in the first quarter, including low double-digit retail sales growth in North America Retail and mid-single-digit growth in Europe & Australia.

At the same time, at-home trends in emerging markets have been mixed. In China, at-home food demand has continued to moderate as that market reopens, while in Brazil, challenges with the virus drove a significant increase in at-home demand in Q1.

Away-from-home demand improved across all our markets in Q1 but remained below the prior year. In the U.S., away-from-home demand strengthened compared to Q4 but looks to have stabilized recently at down low-double digits versus last year. In China, we're seeing continued improvement, with traffic in Haagen-Dazs shops down just 5 percent in August compared to down 15 percent in May.

We continue to pivot to capture the incremental at-home demand we are seeing. We've added additional supply chain capacity both internally and externally, and we've increased marketing spending, with a significant shift to where consumers are increasingly spending their time, including digital marketing and e-commerce.

You can see our headline first-quarter financial performance on slide 6. Our strong execution, coupled with increased demand, drove 10 percent growth in organic net sales in the quarter. We delivered 22

percent growth in constant-currency adjusted operating profit, despite a double-digit increase in media investment. And adjusted diluted earnings per share were up 27 percent in constant currency.

We continue to focus in Fiscal 2021 on three priorities to drive strong performance in the short term while advancing our long-term strategies: competing effectively, everywhere we play; driving efficiency to fuel investment in our brands and capabilities; and reducing our leverage to increase our financial flexibility. I'm pleased to report that as we start the year, we're delivering on all three of these priorities.

While the level of consumer demand largely depends on external factors, we are focused on what we can control, and that starts with competing effectively, everywhere we play.

We competed successfully in the first quarter, with broad-based share gains across our top markets and categories. We held or gained market share in each of our six largest markets and our worldwide shares were up in large categories such as cereal, snack bars, pet food, and ice cream. And we've continued to improve our performance in Yogurt, including holding share in the U.S. and gaining share in France and Canada in the quarter.

Within the U.S., which makes up nearly 75 percent of our net sales, we held or grew share in 8 of our top 10 retail categories in our human food business, we gained share in Pet food, and our share was up in away-from-home measured channels.

Not only are we gaining share, we're attracting new consumers in this environment.

The current environment presents a once-in-a-generation opportunity to drive trial for our brands, and we've seen significant and broad-based increases in global household penetration for most of our largest brands, including Cheerios, Pillsbury, Old El Paso, Progresso, Yoplait, Betty Crocker, and more.

When you look at our U.S. Retail business, where we have the most robust data, not only are we attracting new consumers, early signs indicate they've been satisfied with what they have tried, and we are retaining them. Our repeat rates are higher than pre-pandemic levels in 9 of our top 10 categories in the U.S. – and that's true whether you're talking about all buyers or buyers who are new to our brands. And the improvement in repeat rates for our brands has outpaced the improvement in our top competitors' brands across the majority of our top categories.

We are also seeing some encouraging demographic trends, with new General Mills consumers skewing more heavily to younger and Hispanic households than existing users.
Competing Effectively (HH Penetration Comparison Chart)

Slide 10 shows household penetration gains compared to pre-pandemic levels for General Mills brands and our leading branded competitor for our top 10 U.S. categories. As you can see, we've grown penetration in 9 out of these 10 categories, and our penetration gains outpaced our leading branded competitor in 8 out of 10.

With so many new consumers trying our brands, we're taking a number of approaches to maximize the "stickiness" of this demand.

First, and most importantly, we've spent many years renovating our portfolio to improve the taste, nutrition, convenience, and value of our offerings. For example, we improved the taste and texture of our Pillsbury Grands Biscuits, we added more fruit to Original Style Yoplait, we modernized the nutrition profile of Fiber One brownies for weight managers, we added more of the ingredients consumers love to our Progresso rich and hearty soups, and we reduced sugar by almost 25 percent in our Yoplait Petits

Filous kids products in Europe. Having done this important work, we are confident we will be able to retain new consumers by surprising and delighting them when they try these products for the first time in a long time, or perhaps the first time ever. And the strength of the repeat purchase data we've seen so far is a good indication that consumers are liking the results.

Beyond renovation, innovation remains critical to our business, so we're continuing to bring high-quality new products and formats to market this year, even if the quantity may be a bit lower than in years past. Some examples of our recent innovation include Cinnamon Cheerios, Old El Paso Tortilla Pockets in Europe, our re-launched Dunkaroos snack line, Starburst flavors on Original Style Yoplait, Go-Gurt Slushie yogurts with fizzing texture, and a new line of keto-friendly products including Ratio bars. We believe it's important to maintain our innovation pressure throughout the pandemic and recession, so you'll continue to see us launch new items over the course of Fiscal 2021.

Breakthrough brand building is another key to improving the stickiness of demand. Since the onset of the pandemic, we've increased our media investment and adjusted the way we reach consumers to meet their current needs. For example, General Mills has two of the leading food websites in the U.S. with Bettycrocker.com and Pillsbury.com, which combined have more than 7 million unique monthly visitors. We have been adapting our recipes on these sites to meet consumer's new normal and solve their current problems - simple meal prep, how to use ingredients on hand, and re-creating restaurant favorites at home. We have seen substantial increases in traffic to these sites, including a 91 percent increase in 18-to-24-year-olds visiting our sites since the start of the pandemic. We are excited to continue our relationship with these consumers as they leverage newly learned cooking and baking skills. On Old El Paso, we've partnered with the LeBron James Family Foundation to invite families across the country to spark the magic of togetherness around the dinner table. The Cheerios brand continues to leverage its heart health campaign with strong results. And our newly-digital Box Tops for Education platform continues to drive brand loyalty and consumer engagement, and provides us with proprietary information to help us improve our offerings and our connections with consumers.

Finally, we know E-commerce purchases are extremely sticky, so we're fueling e-commerce growth with compelling partnerships and activations. In Pet, we're reaching out to first-time BLUE e-commerce buyers to encourage them to transition to subscription-based purchases to help keep these new consumers in the BLUE franchise. In China, we're driving higher traffic to our shops by leveraging e-commerce for delivery and pick-up. On our U.S. Retail business, we are leveraging past purchase data to reconnect with lapsed consumers, resulting in increased purchase frequency and household penetration gains.

While we don't expect to maintain all of the new consumers we've gained in the past six months, we're confident that these actions will help us maximize the number of consumers we keep in the General Mills franchise, leading to stronger growth over the long term.

Transitioning to our second priority of driving efficiency to fuel investments on slide 13, we continue to target delivering a full year adjusted operating profit margin roughly in line with last year.

We see several margin tailwinds and headwinds impacting our performance in fiscal 2021:

On the positive side, we continue to expect to deliver strong savings from our Holistic Margin Management, or "HMM," program, at 4 percent of Cost of goods sold.

And we are maximizing our internal capacity utilization, which will drive volume leverage.

In terms of headwinds to margins, we continue to expect input cost inflation of 3 percent of COGS.

We're also increasing our external manufacturing capacity, allowing us to react quickly to the increase in demand and avoid excess capital in the short term. For example, in our North America Retail business we have added around 30 new external manufacturers since the start of the pandemic, providing approximately a 25 percent increase in external capacity. While this comes at a higher cost than our internal capacity, we still like the profitability of these sales, even if they are at a lower percentage margin. And importantly, leveraging external capacity allows us to shed costs if we see demand moderate.

Taking learnings from the last recession, we know it's critically important to continue to invest behind our great brands and growth ideas. In Fiscal 21, we expect brand investments, including media, and investments in capabilities like data and analytics, E-commerce, and Strategic Revenue Management, will be up year-over-year.

Finally, we continue to plan for ongoing health and safety expenses related to the pandemic. While these have moderated from the fourth quarter, we expect they will continue throughout fiscal 2021.

Turning to slide 14, we've made substantial progress on our third priority of reducing our leverage to increase our financial flexibility. As of Q1, we have reached our targeted net-debt-to-adjusted-EBITDA ratio of 3.0-times, which is well ahead of our original schedule coming out of the Blue Buffalo acquisition.

As a result, we're beginning to shift to our normal capital allocation priorities, starting with dividend growth. As we noted in this morning's press release, our Board approved a 4 percent increase in the quarterly dividend rate, to 51 cents, effective with our next dividend payment in early November. With our leverage at a comfortable level, we like the flexibility it gives us to consider future dividend growth and to activate our other capital priorities, including strategic acquisitions and share repurchases.

I'll now pass it to Kofi to share more details on our Q1 financial results...

Kofi Bruce

Thanks, Jeff. And hello everyone.

Let's start with our first-quarter financial results on slide 16. Net sales of \$4.4 billion dollars were up 9 percent. Organic net sales grew 10 percent in the quarter, including the impact of elevated consumer demand driven by the COVID-19 pandemic.

Adjusted operating profit increased 22 percent in constant currency, primarily driven by higher net sales and fixed cost leverage in the supply chain, partially offset by higher SG&A expenses, including a double-digit increase in media investment. Adjusted diluted earnings per share totaled \$1.00 in the quarter and grew 27 percent in constant currency, driven by higher adjusted operating profit and higher after-tax earnings from joint ventures, partially offset by a higher adjusted effective tax rate and higher diluted shares outstanding.

Slide 17 summarizes the components of our net sales growth in the quarter. Organic net sales were up 10 percent, with 8 percent growth in organic pound volume and 2 points of positive organic price/mix. Foreign exchange was a 1-point drag in the quarter.

Now let's turn to segment results, beginning with North America Retail on slide 18.

First-quarter organic net sales were up 14 percent, led by 31 percent growth in U.S. Meals & Baking and 10 percent growth in U.S. Cereal.

As Jeff mentioned, we competed effectively in Q1, holding or gaining share in 8 of our top 10 U.S. categories. First-quarter U.S. retail sales increased 11 percent, which was slower than organic net sales growth, reflecting a partial replenishment of retail inventory that was depleted in the fourth quarter of fiscal '20.

First-quarter constant-currency segment operating profit increased 24 percent, primarily driven by higher volume, partially offset by higher SG&A expenses, including increased media investment.

Organic net sales for our Pet segment increased 6 percent in the quarter, driven by growth in Food, Drug, and Mass, or “FDM” channels, as well as in Ecommerce. We estimate that a reduction in at-home pet food inventory, which was elevated during the early stages of the pandemic, was a headwind to first-quarter net sales. This 6 percent organic net sales growth is on top of mid-teens like-for-like net sales growth in the first quarter of Fiscal '20, when we were benefitting from expanded FDM distribution. And these results were broad based, with continued net sales growth for both dog food and cat food, including double-digit growth on wet food and treats.

We're encouraged that we continued to grow household penetration and Nielsen-measured market share in the quarter after lapping our previous distribution gains.

On the bottom line, first-quarter segment operating profit grew 12 percent in constant currency, driven by higher volume and COGS HMM savings, partially offset by negative price/mix and higher SG&A expenses, including increased media investment.

Turning to Convenience Stores & Foodservice segment results on slide 20, organic net sales declined 12 percent in the quarter, driven by reduced demand in away-from-home channels. We continued to see lower consumer traffic compared to a year ago, and it impacted our results in key channels including Restaurants, Lodging, and Convenience Stores, though these traffic trends have improved from the fourth quarter. And we continue to compete effectively in these channels. In fact, we grew market share in our key measured channels again in the first quarter. Segment operating profit was down 24 percent in the quarter, driven by lower net sales.

In Europe & Australia, first-quarter organic net sales increased 7 percent, primarily driven by increased at-home food demand for our Mexican Food, Haagen-Dazs Retail ice cream, and Baking products, partially offset by a product recall-driven supply constraint on Green Giant vegetables. As we mentioned during our Q4 earnings call, our portfolio mix in this segment includes roughly 40 percent of net sales in yogurt, sizeable businesses in ice cream and snack bars, and nearly 10 percent of net sales to foodservice channels. Therefore, the impact of elevated at-home food demand continues to be less in this segment than it is for North America Retail, which has a much larger portion of net sales in the meals and baking categories.

In terms of in-market performance, we gained aggregate market share in the first quarter, including encouraging share growth in France, our largest market in this segment. First-quarter segment operating profit nearly doubled in constant currency, driven by higher net sales, including positive price/mix in the quarter.

In Asia & Latin America, first-quarter organic net sales grew 17 percent. Net sales were up strong double digits in Latin America, including significant growth for Yoki meals and snacks and Kitano seasoning products in Brazil.

Net sales were up double-digits in Asia, driven primarily by Wanchai Ferry dumplings and Haagen-Dazs retail ice cream sales in China. This growth was partially offset by declines in away-from-home foodservice outlets and Haagen-Dazs Shops, though as Jeff noted earlier, we continued to see foot traffic in our China shops improve over the course of the quarter, from down 15 percent in May to down only 5 percent in August.

First-quarter segment operating profit increased 68 percent in constant currency, driven by higher net sales.

Slide 23 summarizes our joint venture results in the first quarter. Cereal Partners Worldwide posted topline growth for the eighth consecutive quarter, with constant-currency net sales up 9 percent. CPW's growth was broad-based, led by Latin America, Turkey, the UK, and the continental Europe region. Häagen-Dazs Japan net sales were down 1 percent in constant currency, with lower volume partially offset by positive price/mix.

First-quarter combined after-tax earnings from joint ventures totaled \$41 million dollars, compared to \$22 million dollars a year ago, driven primarily by higher net sales and volume leverage at CPW.

Turning to total company margin results, first-quarter adjusted gross margin increased 100 basis points, driven primarily by volume leverage, partially offset by COVID-related health and safety expenses as well as costs to secure incremental production capacity.

Adjusted operating profit margin in the quarter increased 210 basis points, driven by the increase in adjusted gross margin along with good cost management in SG&A, which was up only 2 percent, despite a double-digit increase in media investment in the quarter.

Slide 25 summarizes other noteworthy Q1 income statement items:

Unallocated corporate expenses excluding certain items affecting comparability increased by \$8 million dollars in the quarter.

Net interest expense decreased \$8 million dollars, driven by lower average debt balances, partially offset by a change in the mix of debt.

The adjusted effective tax rate for the quarter was 21.9 percent compared to 20.9 percent a year ago, driven by non-recurring discrete benefits in fiscal 2020, partially offset by earnings mix by market in fiscal 2021.

And average diluted shares outstanding were up 1 percent.

Turning to the balance sheet and cash flow:

First-quarter operating cash flow totaled \$584 million dollars, up 2 percent from the prior year, primarily driven by higher net earnings, partially offset by the timing of tax payments and receipts as well as higher after-tax earnings from joint ventures.

Our core working capital balance totaled \$54 million dollars, a reduction of \$570 million dollars from a year ago, primarily driven by improvements in Accounts Payable.

Capital investments in the quarter totaled \$117 million dollars.

We paid \$303 million dollars in dividends in the quarter.

And, as Jeff mentioned earlier, we ended the quarter with a Leverage Ratio of 3.0 times net-debt to trailing-12-month-adjusted EBITDA.

Turning to our expectations for the balance of Fiscal '21, we've outlined some key assumptions on slide 27. The largest factor impacting our performance this year continues to be the relative balance of at-home versus away-from-home consumer food demand, which is tied to virus control and macroeconomic trends. Because of the uncertainty in demand, we are not yet providing full-year guidance.

With that being said, we do expect demand for at-home food to be elevated throughout this year, compared to pre-pandemic levels, and we will continue to track factors such as the availability of a vaccine, unemployment rates, and wage growth to assess the likely magnitude and duration of increased at-home demand. Narrowing in on our second quarter, we expect our North America Retail categories to grow in the high-single-digit range, similar to the rate of growth we saw in August. As we look further out, we expect net sales to be down in the fourth quarter, driven by the difficult comparison to the year-ago period when net sales grew 21 percent behind the initial pandemic-driven surge in at-home demand, the 53rd week, and the extra month of results in our Pet segment.

And in terms of margin expectations, I covered our first-quarter margin expansion earlier. For the second quarter, we expect adjusted operating profit margins to be down, driven by higher costs to service demand, including increased utilization of external manufacturing capacity that will most heavily impact the second quarter, as well as the comparison to the prior-year period that included a timing-related manufacturing leverage benefit. And as Jeff noted, we continue to target a full-year adjusted operating profit margin roughly in line with fiscal 2020 levels.

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

Jeff Harmening

Thanks, Kofi. I'll close with just a few thoughts. The fundamentals of our business are strong. We're executing extremely well amid an uncertain operating environment, and we're taking actions and making investments that will set us up for long-term success. We're happy to be returning to our normal capital allocation priorities, starting by growing the dividend again. And we're optimistic about our future and our ability to deliver profitable growth and strong returns for General Mills shareholders.

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 7:30 a.m. Central time this morning and will be available for replay at GeneralMills.com.