



GENERAL MILLS FISCAL 2023 Q2 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 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 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 will 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.

Building on a good start to the year in Q1, we delivered strong results in our second quarter, including double-digit growth in organic net sales and adjusted diluted earnings per share. We also delivered a second consecutive quarter of gross margin expansion, representing continued progress toward restoring our pre-pandemic margin profile.

The operating environment remains volatile. While we've seen some modest improvement in recent months, it is still far from pre-pandemic conditions, particularly at our up-stream suppliers. In this context, our team continues to execute well and we remain focused on advancing our Accelerate strategy and delivering on our fiscal 2023 priorities.

Given our strong first-half results and positive momentum on our business, 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 financial performance for the second quarter and the first half of fiscal '23. We drove 11 percent organic net sales growth in the quarter, fueled by strong net price realization in response to significant levels of input cost inflation. Adjusted operating profit was up 7 percent and adjusted diluted EPS was up 12 percent, each in constant currency. Our first-half results were also strong, with double-digit growth in organic net sales and adjusted diluted EPS.

The operating environment in fiscal 2023 remains challenging and dynamic.

- On the cost side, we continue to forecast total input cost inflation of approximately 14 to 15 percent for the full year, including double-digit inflation in the second half.
- Volume elasticities continued to remain below historical levels in the first half, particularly in North America Retail. We are watching these trends closely, but we do not expect a return to pre-pandemic elasticity levels during fiscal 2023.
- We've seen some modest improvement in the supply chain environment in recent months, with logistics challenges continuing to ease and a slight reduction in the level of upstream supply disruptions. As a result, our customer service levels reached the high-80-percent range in U.S. retail by the end of the quarter, up from the mid-80s last quarter, though still well below our normal range of 98 to 99 percent. Despite these improvements, supply disruptions remain well above historical averages, and we aren't forecasting a return to pre-pandemic levels of supply disruptions or customer service during this fiscal year.
- Finally, we continue to see the pandemic impacting consumers' health and mobility around the globe. This has been most acute in China during the first half of this year.

Overall, while it's encouraging to see some signs of supply chain improvement recently, we expect the pace of change in the operating environment to remain high for the foreseeable future. As we've said in the past, our job is not to predict the future better than our competition, but instead to be better able to adapt to change and deliver winning results regardless of the environment. That has been our recipe for success in recent years, and we're focusing on continuing that success in fiscal 2023 and beyond.

We are continuing to drive our Accelerate strategy this year by executing on the three priorities outlined on slide 7:

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

I'm pleased to say that we are making progress against each of these priorities through the first half.

We're competing effectively once again in fiscal 2023, building on four consecutive years of strong market share performance. We are holding or gaining share in 37 percent of our priority businesses through the first half, but that includes a share decline in Cereal, where we're comparing against our unusually strong share gains in the U.S. a year ago when a key competitor was dealing with significant service challenges. On a 2-year basis, our market share in Cereal is still up, and after adjusting for that change, we are holding or gaining share in 54 percent of our priority businesses, including a broad array of platforms in the U.S. and internationally.

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

- Our Media investment was up double digits in Q2, and we expect it to be up double digits for the full year behind compelling campaigns that are increasingly leveraging our digital capabilities to reach consumers everywhere they interact with our brands.
- We've invested significantly in recent years to strengthen our capabilities that are critical to our future success, including Digital & Technology, Strategic Revenue Management, E-commerce, Global Impact, and others. Our total capability investments will be up again in Fiscal 2023, led by Digital & Technology. In fact, we've increased our investment in this area by more than \$100 million dollars over the past few years, and we expect to grow in this area by double digits again this year.
- Additionally, we plan to increase our investment in growth capital by more than 50 percent in Fiscal '23. This includes investments to increase internal manufacturing capacity on key platforms where we see sustained growth into the future, such as pet food, Mexican food, hot snacks, fruit snacks, and cereal.

Another important way we are investing for the future is through our commitment to Standing for Good. For decades, General Mills has taken action to reduce hunger and food insecurity in our communities through grants, corporate contributions, and food product donations.

We work with food banks in more than 40 countries to expand food security and build long-term resilience for the future. One example is Feeding America. General Mills was a founding member of this U.S. hunger-relief organization more than 40 years ago. More recently, we supported the creation of Feeding America's MealConnect, a solution for the nation's charitable food system that allows member food banks to coordinate and receive donations from their local food businesses and grocers.

As the only food-rescue technology available nationwide, MealConnect serves more than 12,000 nonprofits and has enabled the recovery of more than 3.5 billion nourishing meals since its launch in 2014. In addition to providing monetary support, General Mills helped co-create MealConnect's Logistics function, which works to reroute rejected or damaged — but perfectly safe — food products for donation at food banks.

Standing for good is a critical pillar of our Accelerate strategy and is an important way we are investing for our future — for our company, our planet, and for our communities.

Switching gears, I'd like to spend a few minutes highlighting several businesses where we are consistently competing effectively and investing for the future, led by North America Retail.

As we've shared in the past, we've built a multi-year success story in Cereal behind strong innovation, renovation, and investment in what we believe are the best brands in the category. In fact, annual Nielsen-measured retail sales for our U.S. cereal business are up 20 percent since fiscal 2018 to more than \$3 billion dollars. We've gained two-and-a-half share points over that time and solidified our #1 position in the category.

We're bringing more compelling news and innovation to the cereal category in fiscal 2023. Cheerios, which is by far the largest brand in the category, continues to keep its heart-health messaging fresh for consumers, while Cinnamon Toast Crunch, the second-largest brand in the category, is engaging new consumers with its crazy squares. In addition, we've launched 3 of the top 5 new products in the category so far in fiscal '23, and we are particularly excited about our second-half innovation plans. Our new Minis platform brings consumers miniature versions of their favorite cereal brands, providing a fun, new way to enjoy the big flavors they love. We've seen exceptional retail acceptance for these new products and they're already among the top turning items in their first few weeks on shelf.

We've grown retail sales for our Pillsbury U.S. Refrigerated Dough business by nearly 50 percent over the past five years, to nearly \$2 billion dollars, and we're working on our 5th consecutive year of market share gains after having added 5 points of share in the past 4 years.

Pillsbury provides convenience and joy to families — for special occasion and everyday meals. We're having another strong key baking season this year, and we're bringing the brand more regularly into consumers' everyday meal routines.

Our most recent messaging with consumers highlights the many ways to conveniently "make homemade" using Pillsbury dough products outside the oven. And we are leveraging our data and connected commerce capabilities to personalize our messages. For example, by targeting our "make homemade" messaging to consumers who recently purchased an air fryer, we were able to drive lower cost-per-click and convert a higher share of our new Pillsbury consumers, further building confidence in the value of our first-party data.

Our Fruit Snacks platform is an underappreciated local gem in our portfolio...like Pillsbury dough, but on a smaller scale. Here, too, we've generated tremendous growth in recent years, with our retail sales in U.S. fruit snacks up nearly 70 percent since fiscal 2018 to more than \$800 million dollars, and our market share up almost four-and-a-half points to 54 percent of the category.

We accomplished these results despite being capacity constrained for much of that time. But we completed a \$100-million-dollar capacity expansion on fruit snacks in Q1, which has allowed us to execute new channel expansion plans for e-commerce and convenience stores.

Year-to-date, we've driven a 44 percent increase in our e-commerce retail sales on fruit snacks by optimizing our online shelf and consumer experience, leveraging our connected commerce capability. We've also expanded our fruit snacks presence in impulse channels, launching new peggable packaging that has helped us drive a 12-point increase in fruit snacks market share in convenience stores.

With strong momentum, growing consumer demand, and plans for further capacity expansion ahead, we are excited about the continued runway for growth on fruit snacks.

Another business that has a long runway of growth is Blue Buffalo pet food. The trends toward humanization and premiumization in the pet food category are strong and will continue to grow – in the U.S. and around the world. We are focused on leading and expanding our presence in high-quality, natural feeding and treating for dogs and cats.

We are led by our purpose to Love them Like Family, Feed them Like Family, which is the reason Blue Buffalo ranks as the #1 brand pet parents are likely to recommend, the top brand pet parents will pay more for, and the most Loved and Trusted Natural Brand in the category. This has helped us drive terrific growth since we acquired the business in 2018, with our Pet net sales up by \$1 billion dollars through fiscal 2022.

While we continue to believe in the long-run growth opportunity for our Pet business, we experienced an unexpected headwind in Q2 in the form of inventory reductions at some key retailers. As a result, while our all-channel retail sales grew at a high-single-digit rate in the quarter, our net sales were essentially flat.

Beyond the unexpected retail inventory decline, our Pet results in Q2 largely reflected the continued impact of the capacity limitations and resulting customer service challenges that we called out on our first-quarter earnings call. Because of these service challenges, we pulled back on media and in-store support so as not to amplify our issues with on-shelf availability. While these headwinds have been felt across our Pet business, they've been particularly acute on our Dry Dog Food and Treats sub-segments.

As we move into the second half of fiscal 2023, we expect to get back to double-digit net sales growth on Pet, supported by better customer service, stronger product news, increased brand support, and stable retail inventory levels. We expect our customer service will improve because of the external manufacturing capacity we've added on dry dog food and treats. To further improve service, we recently added a new distribution center and expanded capacity at our existing warehouses.

We initially prioritized customer service improvement on Life Protection Formula, which makes up more than half of our dry dog food retail sales, and we've seen encouraging volume growth on that business in Nielsen-measured channels in the past 6 weeks. We're now expanding our service improvement focus to the rest of our Dry Dog portfolio and to Treats, leveraging our increased capacity.

Improved customer service will also allow us to step up our media and in-store support, including a strong double-digit increase in media investment on Pet in the back half. And we have an exciting lineup of innovation and renovation launching across dog food, cat food, and treats.

Our back-half news on Pet starts with significant renovation and innovation on our Wilderness dry dog food line. We're adding 20 percent more meat to our core Wilderness dry dog food products, and we're ramping up spending behind this news. We're also launching Wilderness Premier Blend, a new, super-premium offering that includes kibble, plus a new, proprietary tender meaty piece that dogs love, in a convenient all-in-one solution pet parents will love too.

On cat food, we're renovating our core dry portfolio and relaunching it under the Tastefuls equity. This launch builds on the success of the Tastefuls wet cat food line we introduced in 2021. Blue Tastefuls now offers a complete portfolio of feeding options for cats that provides the perfect combination of great taste and healthy ingredients. The new packaging is just starting to hit shelves now, and we'll support the news with media and in-store activations in the coming months.

And on Treats, our added capacity will help us drive improved customer service on our Nudges, True Chews, and Top Chews products, which now carry the Blue Buffalo shield. With better on-shelf availability, we'll be able to turn on national media support and in-store merchandising, leveraging the Blue Buffalo master brand, which will help amplify awareness of these highly differentiated products.

We remain bullish about the growth prospects for our Pet business. With a retailer inventory reduction and the worst of our capacity and service challenges behind us, and with exciting innovation and brand-building investment behind the strongest natural brand in the category, we're poised to continue Pet's track record of outstanding growth — in fiscal 2023, and over the long term.

Taking a step back, I continue to be pleased with how we're executing our Accelerate strategy to drive profitable growth on our core while continuing to reshape our portfolio.

Now let me turn it over to Kofi to provide more details on our second-quarter results and our increased guidance.

Kofi Bruce

Thanks, Jeff. And hello everyone.

Our second-quarter financial results are summarized on slide 18. Note that there were a handful of events that impacted our year-over-year comparisons this quarter. These included the acquisition of TNT Crust, as well as the divestures of our European yogurt business, our international dough businesses, and the Helper and Suddenly Salad business in North America. We also had an impact from the international Häagen-Dazs ice cream recall that we announced last quarter. We do not expect any further material impact from the recall in the remainder of the year.

Now let's move on to our Q2 results. Reported net sales of \$5.2 billion dollars were up 4 percent, and organic net sales grew 11 percent in the quarter, reflecting continued positive price/mix in response to significant input cost inflation, partially offset by lower volume.

Adjusted operating profit of \$880 million dollars was up 7 percent in constant currency, with benefits from positive price/mix partially offset by higher input costs, lower volume, and higher SG&A expenses, including a double-digit increase in media investment. Adjusted diluted earnings per share totaled \$1.10 in the quarter and were up 12 percent in constant currency.

Slide 19 summarizes the components of our net sales growth in the quarter. Organic net sales were up 11 percent, reflecting 17 points of positive organic price/mix, partially offset by a 6 percent decline in organic pound volume. Foreign exchange reduced net sales by 1 point, and the net impact of acquisitions and divestitures was a 5-point headwind to second-quarter net sales.

Now let's turn to our segment results, beginning with North America Retail on slide 20.

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 13 percent in the quarter, driven by positive price/mix, partially offset by lower volume. Despite elevated levels of inflation-driven pricing, elasticities continue to remain below historical benchmarks.

Growth in NAR this quarter was broad based, with double-digit net sales growth in U.S. Snacks, U.S. Meals and Baking Solutions, and U.S. Morning Foods, and mid-single-digit net sales growth in Canada in constant currency. We continue to compete effectively, with 67 percent of our North America Retail priority businesses holding or growing share so far this fiscal year, when adjusting for Cereal on a two-year basis.

Second-quarter constant-currency segment operating profit increased 24 percent, driven by positive price/mix and HMM cost savings, partially offset by high input cost inflation, lower volume, and higher SG&A expenses.

Slide 21 summarizes our Pet segment results. As Jeff mentioned, Pet net sales in Q2 were negatively impacted by a reduction in retailer inventory. All-channel retail sales were up high-single digits in the quarter.

We expect Pet net sales growth to accelerate in the second half behind increased capacity, improved customer service, strong innovation and renovation news, and increased brand-building investment. Additionally, we expect retailer inventory levels to remain stable in the back half of the year.

On the bottom line, second-quarter segment operating profit totaled \$87 million dollars compared to \$132 million a year ago, driven primarily by high-teens input cost inflation, a significant increase in costs related to capacity expansion and supply chain disruptions, and lower volume, including the impact of the retailer inventory reduction. These headwinds were partially offset by positive price/mix. We expect to deliver profit growth on Pet in the back half with stronger volume performance, less headwind from capacity and supply disruption costs, and better alignment between price/mix and inflation.

Moving on to our North America Foodservice segment results on slide 22, organic net sales grew 17 percent in the quarter. As we expected, this quarter's performance included greater price/mix benefit on our non-flour business compared to Q1, and less benefit from market index pricing on bakery flour, which is dollar profit neutral.

Segment operating profit for the quarter was up 20 percent, driven by positive price/mix, partially offset by higher input costs and higher SG&A expenses.

Second-quarter International segment results are summarized on slide 23. Organic net sales were up 5 percent this quarter, driven by good growth in Brazil, our Distributor markets, and Europe & Australia, partially offset by a decline in China due to continued consumer mobility restrictions due to zero COVID policy as well as the impact of the international ice cream recall.

Second-quarter segment operating profit totaled \$18 million dollars compared to \$59 million a year ago, driven by higher input costs and lower volume, including the impact of divestitures and the ice cream recall, partially offset by positive price/mix and lower SG&A expenses. With comparisons against the Yogurt divestiture and the Ice Cream recall now behind us, we expect to generate profit growth in International in the back half of F23.

Slide 24 summarizes our joint venture results in the second quarter. Cereal Partners Worldwide net sales were up 2 percent in constant currency, driven by favorable price/mix, partially offset by lower volume. Häagen-Dazs Japan net sales were down 10 percent in constant currency as the business lapped strong new product performance last year.

Second-quarter combined after-tax earnings from joint ventures totaled \$25 million dollars compared to \$33 million dollars a year ago, primarily driven by unfavorable foreign currency exchange as well as lower constant-currency profit at HDJ, partially offset by favorable CPW price/mix.

Turning to total company margin results on slide 25, our second-quarter adjusted gross margin increased 100 basis points versus last year to 33.2 percent, driven by positive price/mix and HMM cost savings, partially offset by mid-teens input cost inflation, higher other cost of goods sold, and supply chain deleverage. While this is our second quarter of gross margin improvement, our adjusted gross margin is still below pre-pandemic levels, and we have more work to do to restore our historical margin profile.

Adjusted operating profit margin increased 60 basis points in the quarter to 16.9 percent, driven by higher adjusted gross margin, partially offset by higher SG&A expenses.

Slide 26 summarizes other noteworthy Q2 income statement items:

- Adjusted unallocated corporate expenses increased \$30 million dollars in the quarter, primarily reflecting increased capability investments this year and certain discrete favorable items a year ago.
- Net interest expense decreased \$1 million dollars, driven by lower average long-term debt balances, partially offset by higher rates.
- The adjusted effective tax rate for the quarter was 21.1 percent compared to 22.3 percent a year ago, driven by certain discrete tax benefits this year.
- And average diluted shares outstanding in the quarter were down 2 percent to 602 million, reflecting our net share repurchase activity.

Our first-half F23 results are summarized on Slide 27. Net sales of \$9.9 billion dollars were up 4 percent, including a 5-point headwind from net divestiture and acquisition activity and 1 point of unfavorable foreign currency exchange. Organic net sales increased 11 percent, driven by positive organic price/mix, partially offset by lower organic pound volume. Year-to-date adjusted operating profit of \$1.8 billion dollars increased 8

percent in constant currency. And adjusted diluted earnings per share of \$2.21 were up 13 percent in constant currency.

Turning to the balance sheet and cash flow on slide 28.

- While we drove strong growth in adjusted net earnings in the first half, our operating cash flow was down from \$1.5 billion dollars a year ago to \$1.2 billion in the first half of fiscal '23, driven primarily by an increase in inventory and higher cash tax payments.
- Year-to-date capital investments in the quarter totaled \$227 million dollars. We remain on track for capital investment to total roughly 4 percent of net sales for the full year.
- And we returned \$1.4 billion dollars in cash to shareholders in the first six months of the year through dividends and net share repurchases.

On slide 29, you can see our increased guidance for fiscal 2023. We now expect organic net sales to increase 8 to 9 percent, reflecting better volume performance and improved price/mix relative to our prior outlook. We continue to expect elasticities will remain below historical levels over the remainder of this fiscal year.

We now expect adjusted operating profit to increase 3 to 5 percent in constant currency, reflecting stronger topline performance. We continue to expect total input cost inflation of 14 to 15 percent of total cost of goods sold, HMM cost savings of 3 to 4 percent of COGS, moderately lower supply chain disruptions versus last year, and increased investment in brand building and other growth-driving activities.

Constant-currency adjusted diluted earnings per share are now expected to increase 4 to 6 percent. This updated outlook reflects stronger profit growth and higher net interest expense, which is now expected to total more than \$400 million dollars for the full year, reflecting rising interest rates. Our guidance for both adjusted operating profit and adjusted diluted EPS both include a 3-point net headwind from divestitures and acquisitions and an estimated 1-point headwind from the ice cream recall.

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

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

Jeff Harmening

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

I continue to be pleased with how we're executing our Accelerate strategy and driving profitable growth, including delivering strong results again in Q2. We're competing effectively, building on four consecutive years of positive market share performance, and we continue to invest for the future. While we have work to do to overcome some short-term headwinds in Pet and International, we've taken actions to drive stronger results in those segments in the second half of this year.

I'm also pleased that we are once again raising our guidance for the full year, building on our strong first-half results and compelling plans for the back half.

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).