

General Mills Inc.(GIS)

\$65.17 (As of 07/14/20)

Price Target (6-12 Months): **\$68.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/20/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

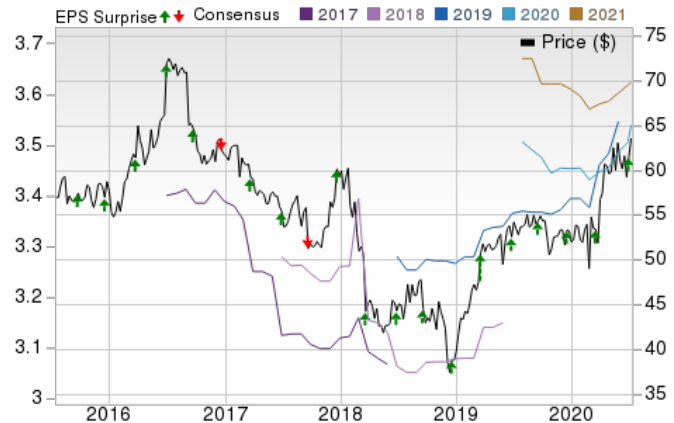
Growth: A

Momentum: B

Summary

General Mills' shares have outperformed the industry year to date. The company posted robust fourth-quarter fiscal 2020 results, with the top and the bottom line surpassing the consensus mark and rising year over year. The upside can be attributed to higher consumer demand amid coronavirus. Moreover, management anticipates net sales in fiscal 2021 to be favorably impacted by higher at-home demand for food compared with the pre-pandemic levels. Apart from this, the company unveiled a set of key priorities for growth in the quarter. Moreover, General Mills has been gaining from its Blue Buffalo buyout. Also, its robust saving efforts bode well. However, COVID-19 marred the company's Convenience Stores & Foodservice as well as Asia & Latin America segment. Also, adverse currency rates and escalated SG&A expenses were a drag.

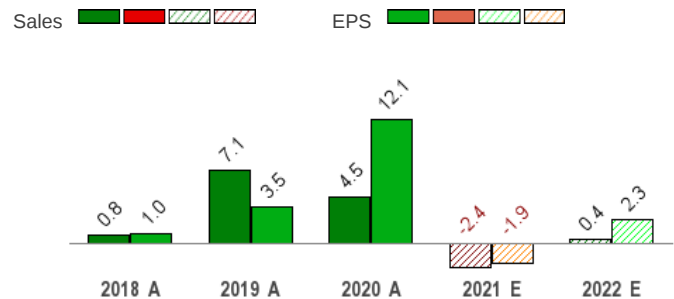
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$65.29 - \$46.59
20 Day Average Volume (sh)	4,624,148
Market Cap	\$39.7 B
YTD Price Change	21.7%
Beta	0.60
Dividend / Div Yld	\$1.96 / 3.0%
Industry	Food - Miscellaneous
Zacks Industry Rank	Top 28% (71 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.8%
Last Sales Surprise	0.9%
EPS F1 Est- 4 week change	1.1%
Expected Report Date	09/16/2020
Earnings ESP	0.3%
P/E TTM	18.1
P/E F1	18.4
PEG F1	2.6
P/S TTM	2.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	4,106 E	4,508 E	4,313 E	4,346 E	17,277 E
2021	4,183 E	4,537 E	4,294 E	4,169 E	17,212 E
2020	4,003 A	4,421 A	4,180 A	5,023 A	17,627 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.87 E	\$1.02 E	\$0.85 E	\$0.88 E	\$3.62 E
2021	\$0.87 E	\$1.00 E	\$0.83 E	\$0.85 E	\$3.54 E
2020	\$0.79 A	\$0.95 A	\$0.77 A	\$1.10 A	\$3.61 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/14/2020. The reports text is as of 07/15/2020.

Overview

Based in Minneapolis, MN, General Mills Inc. is a global manufacturer and marketer of branded consumer foods sold through retail stores. The company also serves the foodservice and commercial baking industries. Its principal product categories include ready-to-eat cereals, convenient meals, snacks (including grain, fruit and savory snacks, nutrition bars, and frozen hot snacks), yogurt, super-premium ice creams, baking mixes and ingredients, and refrigerated and frozen dough.

General Mills acquired Blue Buffalo in April 2018, and its consolidated results form part of a newly formed "Pet" segment following the first quarter of fiscal 2019. The company now reports under the following groups:

North America Retail (63.6% of total revenues in Q4): This segment consists of U.S. Meals & Baking and reflects business with wide variety of grocery stores, mass merchandisers, membership stores, natural food chains, and drug, dollar and discount chains operating throughout the United States. The product categories within the segment include ready-to-eat cereals, refrigerated yogurt, soup, meal kits, refrigerated and frozen dough products, dessert and baking mixes, frozen pizza and pizza snacks, grain, fruit and savory snacks, and a wide variety of organic products including meal kits, granola bars, and ready-to-eat cereal.

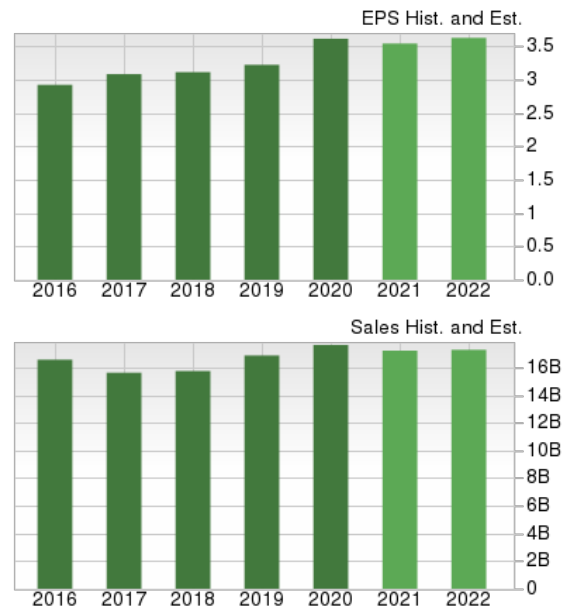
Convenience Stores & Foodservice (7.8% of total revenues in Q4):

The segment sells ready-to-eat cereals, snacks, refrigerated yogurt, frozen meals, unbaked and fully baked frozen dough products and baking mixes to foodservice, convenience stores, vending, and supermarket bakeries.

Europe & Australia (10.6% of total revenues in Q4): This segment reflects retail and foodservice businesses in the greater Europe & Australia regions.

Asia & Latin America (6.9% of total revenues in Q4): This segment consists of retail and foodservice businesses in the greater Asia and South America regions.

Pet (11.1% of total revenues in Q4): This segment consists of the consolidated results of the recently acquired Blue Buffalo Pet Products.



Reasons To Buy:

▲ **Robust Q4 Results:** Shares of General Mills have gained 21.7% so far this year against the industry's decline of 9.4%. The company posted robust fourth-quarter fiscal 2020 results, with the top and the bottom line surpassing the Zacks Consensus Estimate. Adjusted earnings increased 33% year over year on a constant-currency (cc) basis. Further, net sales increased 21% year over year in the fourth quarter. Also, organic sales increased 16% on growth in North America Retail, Pet as well as Europe & Australia segment. Organic volumes as well as organic price/mix were favorable. The upside can be attributed to an extra week in the fourth quarter coupled with higher consumer demand amid the coronavirus pandemic. Moreover, the company anticipates net sales in fiscal 2021 to be favorably impacted by higher at-home demand for food compared with the pre-pandemic levels.

In fourth-quarter fiscal 2020, General Mills' gained from robust sales growth owing to coronavirus outbreak.

▲ **Gains From Blue Buffalo Aid Pet Segment:** General Mills acquired Blue Buffalo Pet Products, Inc. in fiscal 2018, which now forms its Pet segment. Following this acquisition, the company became one of the leading players in the pet food arena. Blue Buffalo manufactures and markets wholesome natural pet food items and is contributing to General Mills' top line. In fourth-quarter fiscal 2020, the company witnessed sales growth in the Pet segment. Revenues in the segment were up 37% year over year on the back of solid volume growth. Also, the segment results include an additional month of results.

Prior to this, sales rose 11% year over year in the third quarter on the back of volume growth as well as favorable net price realization and mix impacts. A double-digit rise in the segment's biggest product lines — Life Protection Formula and Wilderness — fueled growth. Further, expansion in the Food, Drug and Mass (FDM) and favorable price mix were a key driver.

▲ **Focus on Key Priorities:** Alongside its fourth-quarter fiscal 2020 results, General Mills introduced three key priorities for fiscal 2021. Firstly, the company expects to execute a "compete effectively, everywhere we play" policy. Through this practice the company aims to enhance brand penetration, strengthen its consumer partnerships as well as increase competitive service levels. Also, management expects to gain market share for some of its key categories via this strategy. Moreover, General Mills is on track with optimizing its efficiency with an aim to enhance its investments. Management expects to reduce net-debt-to-adjusted-EBITDA ratio in fiscal 2021.

▲ **Cost-Saving Initiatives:** General Mills is currently pursuing many initiatives focused on improving operational efficiency to generate cost savings and support its key growth strategies. The company expects to achieve cost savings through increased efficiency, reduced complexity through SKU optimization, further supply chain optimization and continued expansion of zero-based budgeting across the business, which will result in accelerated margin expansion. Also, the company remains on track with its Holistic Margin Management (HMM), which is expected to continue generate greater savings. In fact, savings from this initiative drove the gross margin to an extent during the fourth quarter of fiscal 2020. Notably, adjusted gross margin expanded 80 basis points to 36.1% in the quarter.

▲ **Sustainable Shareholder Returns:** General Mills' looks well placed on the dividend-payout front. At a juncture where companies are suspending dividends to preserve financial flexibility, the company recently paid a quarterly dividend of 49 cents per share. Notably, General Mills has a dividend payout of 54.3%, dividend yield of 3% and free cash flow yield of 6.9%. With an annual free cash flow return on investment of 16.7%, ahead of the industry's almost 10%; the dividend payment is likely to be sustainable. Further, General Mills' long-term debt of \$10,929 million decreased 5.7% sequentially at the end of the fourth quarter of fiscal 2020 — May 31, 2020

▲ **Concentration on Innovation, Health & Nutrition:** The company focuses on maintaining a steady pipeline of products to boost sales momentum and capture market share. With evolving consumer food preferences, General Mills is investing in consumer-focused innovation and marketing and accelerating the natural and organic product portfolio to boost its sales. In this respect, the company expects to reap continued benefits from Annie's, General Mills' biggest natural and organic brand. Other noteworthy brands included in this category are Bunny Grahams, Muir Glen and EPIC. The natural products platform is likely to continue expanding in the forthcoming periods.

Reasons To Sell:

- ▼ **COVID-19 Hurts Convenience Stores & Foodservice:** During fourth-quarter fiscal 2020, revenues in the Convenience Stores & Foodservice business dropped 24% to \$393.1 million. This downtick was caused by significant reduction in demand for away-from-home food amid the coronavirus outbreak. In fact, the company witnessed double-digit decline in the traffic across various channels including lodging, schools, restaurants as well as convenience stores amid the pandemic. Moreover, organic sales in the segment declined 29% year over year. Further, operating profit was down 67% due to reduced net sales in the segment.
- ▼ **Sales Decline in Asia & Latin America:** Sales in the segment have been declining for the past few quarters. During the fourth quarter of fiscal 2020, revenues in the Asia & Latin America segment declined 12% from the year-ago quarter's figure. The segment's performance reflects the impact of coronavirus on Haagen-Dazs store and foodservice outlets traffic. Also, adverse currency rates were deterrents. Moreover, organic net sales in the segment fell 7% during the quarter. Prior to this, revenues in the segment declined 5% year over year in the third quarter. We believe that sluggish performance in the segment remains a threat to the company's performance.
- ▼ **Currency Volatility a Worry:** The company is exposed to volatile foreign currency translations, as it has a widespread global business and undertakes business expansion efforts frequently. Evidently, adverse currency movements were a drag on General Mills' top line by 2 points during the fourth quarter of fiscal 2020. Clearly, volatility in exchange rates is a threat to the company's performance.
- ▼ **High Costs:** General Mills' SG&A expenses increased 25% in the fourth quarter of fiscal 2020. Meanwhile, SG&A as a percentage of sales expanded 60 bps to 18.5% during this time. The downtick was primarily caused by significantly higher media investment in the quarter. We believe that, persistence of this headwind is a threat to the company's profits.
- ▼ **Stiff Competition:** General Mills operates in a highly competitive food industry, wherein it faces competition from other players on grounds of lower cost advantage, pricing, product assortment, and geographic reach. Further, significant consolidations in this space and consumers evolving preferences has intensified competition of late. Apart from this, volatile and price-sensitive demand for food-away-from-home products also creates pricing pressure for the company. Such factors may reduce the company's market share.

Escalated SG&A expenses are a hurdle for General Mills. Moreover, weakness in Convenience Stores & Foodservice unit is a headwind.

Last Earnings Report

General Mills Q4 Earnings Beat Estimates, Sales up Y/Y

General Mills released robust fourth-quarter fiscal 2020 results, with the top and the bottom line surpassing the Zacks Consensus Estimate. Moreover, earnings and sales increased on a year-over-year basis. Given the current situation related to the coronavirus outbreak and its unpredictable impact on consumer demand globally, the company refrained from providing fiscal 2021 guidance.

Quarter Ending **05/2020**

Report Date	Jul 01, 2020
Sales Surprise	0.91%
EPS Surprise	3.77%
Quarterly EPS	1.10
Annual EPS (TTM)	3.61

Q4 Highlights

The company's adjusted earnings per share of \$1.10 increased 33% year over year on a constant-currency (cc) basis. Moreover, the bottom line beat the Zacks Consensus Estimate of \$1.06 per share. The uptick can be attributed to improved adjusted operating profit as well as higher after-tax earnings from joint ventures. Reduced adjusted effective tax rate also contributed to the upside.

Net sales of \$5,023 million increased 21% year over year and surpassed the Zacks Consensus Estimate of \$4,978 million. Also, organic sales increased 16% on growth in North America Retail, Pet as well as Europe & Australia segment. Organic volumes as well as organic price/mix were favorable. The upside can be attributed to an extra week in the fourth quarter coupled with higher consumer demand amid the coronavirus pandemic. However, sales included an adverse impact of 2 points from unfavorable foreign currency rates.

Adjusted gross margin expanded 80 basis points (bps) to 36.1% owing to robust Holistic Margin Management (HMM) savings as well as favorable production leverage. Adjusted operating profit came in at \$888 million. The metric increased 24% at cc on the back of higher net sales. Adjusted operating margin expanded 40 bps to 17.7%.

Segmental Performance

North America Retail: Revenues in the segment came in at \$3,196.4 million, up 36% year over year. Sales improved across all operating units owing to higher at-home consumption amid the pandemic.

Convenience Stores & Foodservice: Revenues dropped 24% to \$393.1 million due to significant reduction in demand for away-from-home food amid the coronavirus outbreak.

Europe & Australia: The segment's revenues rose 6% to \$530 million, including adverse currency impacts of 4 points. Further, sales increased 4% year over year on an organic basis. Softness in away-from-home channels was fully offset by growth in Betty Crocker dessert mixes and Old El Paso Mexican food.

Asia & Latin America: Revenues declined 12% from the year-ago quarter's figure to \$348.9 million. The segment's performance reflects the impact of coronavirus on Haagen-Dazs store and foodservice outlets traffic. Also, adverse currency rates were deterrents.

Pet Segment: Revenues came in at \$554.6 million, up 37% year over year on the back of solid volume growth. Also, the segment results consist an additional month of results.

Other Financial Aspects

The company ended the quarter with cash and cash equivalents of \$1,677.8 million, long-term debt of \$10,929 million and total shareholders' equity of \$8,058.5 million.

General Mills generated \$3,676.2 million as net cash from operating activities in fiscal 2020. During the same time frame, the company made capital investments worth \$461 million, paid out dividends of \$1.2 billion and lowered debt by \$950 million.

Other Developments

Constant-currency sales from joint ventures of Cereal Partners Worldwide increased 13% in the quarter. In Haagen-Dazs Japan, sales declined 13% at cc from the prior-year quarter's figure.

Outlook

The company anticipates net sales in fiscal 2021 to be favorably impacted by higher at-home demand for food compared with the pre-pandemic levels. Also, management remains optimistic about its robust execution skills. However, an additional month of results in the Pet segment along with higher demand due to COVID-19 in the fourth quarter could act as unfavorable comparison for fiscal 2020. Management also envisions reducing net-debt-to-adjusted-EBITDA ratio in fiscal 2021.

Recent News

General Mills Declares Dividend – Jun 30, 2020

General Mills has declared quarterly cash dividend of 49 cents per share. This will be payable on Aug 3 to shareholders of record as on Jul 10.

Valuation

General Mills shares are up 21.7% in the year-to-date period and 23.3% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 9.4% in the year-to-date period, while the Zacks Consumer Staples sector is down 12.3%. Over the past year, the Zacks sub-industry is up 2.4%, while the sector declined 10.7%.

The S&P 500 index is down 1.7% in the year-to-date period and up 5.8% in the past year.

The stock is currently trading at 18.36X forward 12-month earnings, which compares to 18.22X for the Zacks sub-industry, 19.4X for the Zacks sector and 22.45X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.31X and as low as 11.53X, with a 5-year median of 17.27X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$68 price target reflects 19.16X forward 12-month earnings.

The table below shows summary valuation data for GIS

Valuation Multiples - GIS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	18.36	18.22	19.4	22.45
	5-Year High	23.31	22.9	22.37	22.45
	5-Year Low	11.53	14.82	16.63	15.25
	5-Year Median	17.27	18.52	19.57	17.52
P/S F12M	Current	2.31	1.63	9.32	3.51
	5-Year High	2.68	2.05	11.15	3.51
	5-Year Low	1.27	1.41	8.1	2.53
	5-Year Median	1.97	1.76	9.89	3.02
EV/EBITDA F12M	Current	13.46	13.15	32.76	13.2
	5-Year High	14.02	14.68	37.49	14.24
	5-Year Low	8.69	10.97	25.81	9.05
	5-Year Median	11.93	13.21	33.81	11

As of 07/14/2020

Industry Analysis Zacks Industry Rank: Top 28% (71 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
BG Foods, Inc. (BGS)	Outperform	2
Conagra Brands Inc. (CAG)	Neutral	2
Campbell Soup Company (CPB)	Neutral	3
Flowers Foods, Inc. (FLO)	Neutral	3
Kellogg Company (K)	Neutral	2
Nomad Foods Limited (NOMD)	Neutral	2
TreeHouse Foods, Inc. (THS)	Neutral	3
United Natural Foods, Inc. (UNFI)	Neutral	3

Industry Comparison Industry: Food - Miscellaneous				Industry Peers		
	GIS	X Industry	S&P 500	CAG	K	THS
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	2	3
VGM Score	A	-	-	A	A	B
Market Cap	39.75 B	3.58 B	21.89 B	17.91 B	23.44 B	2.51 B
# of Analysts	8	3	14	8	6	6
Dividend Yield	3.01%	0.00%	1.86%	2.31%	3.33%	0.00%
Value Score	B	-	-	B	C	C
Cash/Price	0.04	0.06	0.07	0.03	0.04	0.13
EV/EBITDA	13.38	12.99	12.84	14.22	14.50	28.73
PEG Ratio	2.63	3.87	2.92	2.19	4.69	2.64
Price/Book (P/B)	4.76	2.25	3.06	2.25	7.30	1.40
Price/Cash Flow (P/CF)	14.19	11.88	11.89	11.91	12.75	7.24
P/E (F1)	18.41	18.42	21.54	15.36	17.95	17.21
Price/Sales (P/S)	2.25	1.17	2.27	1.62	1.74	0.55
Earnings Yield	5.43%	4.84%	4.38%	6.50%	5.57%	5.81%
Debt/Equity	1.31	0.66	0.76	1.12	2.38	1.31
Cash Flow (\$/share)	4.59	2.81	6.94	3.09	5.36	6.13
Growth Score	A	-	-	A	A	A
Hist. EPS Growth (3-5 yrs)	3.19%	5.41%	10.85%	-2.26%	3.30%	-9.29%
Proj. EPS Growth (F1/F0)	-1.98%	5.10%	-9.64%	4.99%	-3.30%	7.95%
Curr. Cash Flow Growth	9.11%	4.76%	5.51%	22.57%	-9.43%	-1.33%
Hist. Cash Flow Growth (3-5 yrs)	3.48%	5.90%	8.55%	4.34%	-0.49%	5.96%
Current Ratio	0.68	1.60	1.30	0.88	0.77	1.58
Debt/Capital	56.69%	40.14%	44.46%	52.82%	70.39%	56.69%
Net Margin	12.37%	3.79%	10.54%	7.60%	7.61%	-8.06%
Return on Equity	27.66%	12.01%	15.75%	14.38%	41.25%	7.25%
Sales/Assets	0.58	1.08	0.54	0.49	0.75	0.85
Proj. Sales Growth (F1/F0)	-2.35%	0.00%	-2.52%	-2.92%	-2.07%	-8.80%
Momentum Score	B	-	-	D	A	D
Daily Price Chg	2.53%	1.34%	1.60%	3.17%	2.17%	3.79%
1 Week Price Chg	3.37%	0.00%	-0.41%	2.54%	1.33%	1.72%
4 Week Price Chg	5.47%	0.00%	-0.71%	7.36%	2.58%	-8.53%
12 Week Price Chg	9.02%	9.02%	15.18%	8.69%	4.40%	-9.44%
52 Week Price Chg	23.29%	-3.45%	-6.45%	30.67%	23.87%	-18.90%
20 Day Average Volume	4,624,148	200,333	2,246,780	3,894,822	2,282,454	759,062
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.22%	0.00%
(F1) EPS Est 4 week change	1.11%	0.00%	0.00%	3.79%	0.22%	0.00%
(F1) EPS Est 12 week change	2.50%	-0.69%	-6.22%	4.13%	1.20%	1.98%
(Q1) EPS Est Mthly Chg	4.41%	0.00%	0.00%	0.25%	0.18%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	A
Momentum Score	B
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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