

## General Mills Inc.(GIS)

**\$53.98** (As of 01/22/20)

Price Target (6-12 Months): **\$57.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 08/20/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**2-Buy**

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: F

## Summary

General Mills, which has outpaced the industry in a year, is steadily gaining from buyouts. Evidently, its Blue Buffalo acquisition fueled the Pet segment in second-quarter fiscal 2020, wherein earnings grew year over year and marked its seventh straight beat. Lower tax rate and interest expenses along with higher adjusted operating profit were some of the major drivers. Clearly, the company's Holistic Margin Management program and efforts to enhance efficiency are yielding results. However, input cost inflation is a threat to margins. Also, sales in the quarter were somewhat hurt by continued weakness in the U.S. Snacks category and headwinds in Europe & Australia. Nonetheless, the company is on track with its Consumer First strategy and key global growth plans to improve sales.

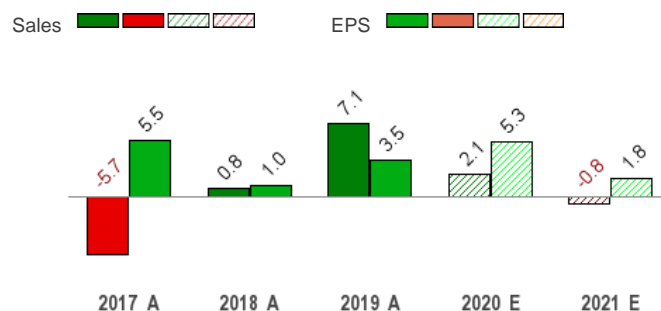
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$56.40 - \$42.80
20 Day Average Volume (sh)	3,248,684
Market Cap	\$32.6 B
YTD Price Change	0.8%
Beta	0.72
Dividend / Div Yld	\$1.96 / 3.6%
Industry	<a href="#">Food - Miscellaneous</a>
Zacks Industry Rank	Top 32% (81 out of 255)

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.0%
Last Sales Surprise	0.2%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	03/18/2020
Earnings ESP	0.0%
P/E TTM	15.9
P/E F1	15.9
PEG F1	2.3
P/S TTM	2.0

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,069 E	4,486 E	4,309 E	4,258 E	17,093 E
2020	4,003 A	4,421 A	4,228 E	4,568 E	17,226 E
2019	4,094 A	4,411 A	4,198 A	4,162 A	16,865 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.81 E	\$0.97 E	\$0.82 E	\$0.84 E	\$3.45 E
2020	\$0.79 A	\$0.95 A	\$0.77 E	\$0.88 E	\$3.39 E
2019	\$0.71 A	\$0.85 A	\$0.83 A	\$0.83 A	\$3.22 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 01/22/2020. The reports text is as of 01/23/2020.

## 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** (60.5% of total revenues in Q2): 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.

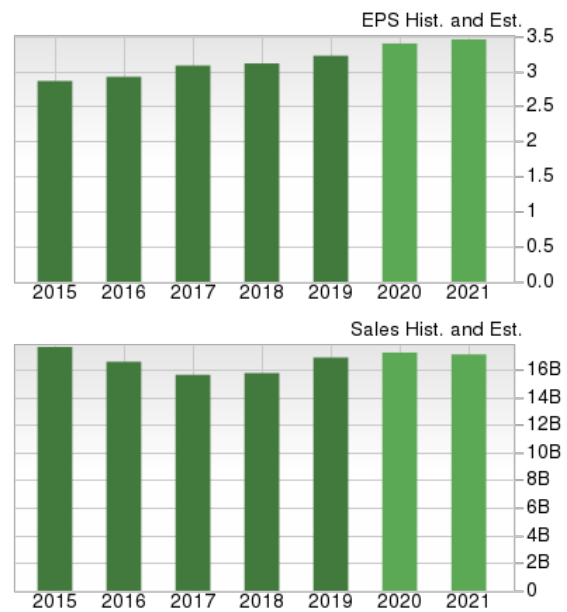
**Convenience Stores & Foodservice** (11.6% of total revenues in Q2):

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** (9.8% of total revenues in Q2): This segment reflects retail and foodservice businesses in the greater Europe & Australia regions.

**Asia & Latin America** (9.3% of total revenues in Q2): This segment consists of retail and foodservice businesses in the greater Asia and South America regions.

**Pet** (8.8% of total revenues in Q2): This segment consists of the consolidated results of the recently acquired Blue Buffalo Pet Products.



## Reasons To Buy:

▲ **Strong Earnings Trend, 2020 View:** General Mills holds an impressive record of earnings beat. The company's bottom line surpassed estimates in the trailing seven quarters. During the second quarter of fiscal 2020, adjusted earnings per share of 95 cents increased 11% year over year on a constant-currency (cc) basis. The bottom line beat the Zacks Consensus Estimate of 88 cents. The upside was fueled by reduced adjusted effective tax rate and net interest expenses as well as higher adjusted operating profit and non-service benefit plan income.

Consumer-focused innovations, yielding buyouts and robust savings such as the HMM plan are aiding General Mills' growth.

The company is encouraged about building sales momentum in the second half of the fiscal on the back of increased brand investments. Also, General Mills is on track with its Consumer First strategy. That said, management reiterated its fiscal 2020 guidance, wherein it expects organic sales to improve 1-2% in fiscal 2020. Moreover, net sales are expected to rise 1 to 2 percentage points on the back of gains from divestitures, favorable currency translations and contributions from the 53rd week in the fiscal. Adjusted operating profit (at cc) is expected to improve 2-4% from \$2.86 billion in fiscal 2019. Also, the company envisions adjusted earnings per share (at cc) to rise in the range of 3-5% year over year. The solid earnings trend, positive view for fiscal 2020 and prudent strategies to boost business capabilities have instilled optimism among investors. The company's shares have surged 28.7% in a year compared with the industry's growth of 18.3%.

▲ **Gains From Blue Buffalo Aids 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 second-quarter fiscal 2020, the company witnessed sales growth only in the Pet segment.

Revenues came in at \$388.7 million, up 16% year over year on the back of volume growth as well as favorable net price realization and mix impacts. Further, expansion in the Food, Drug and Mass (FDM) and e-commerce networks were a key driver. Management anticipates sales in the Pet segment to grow 8-10% on a like-for-like basis in fiscal 2020. Also, it is encouraged about the long-term growth prospects of the segment.

▲ **Key Global Strategies:** General Mills is on track with growth plans such as Consumer First strategy as well as key global growth strategies to drive consistent sales growth. To this end, the company is focused on solid innovations, efficient customer marketing and strong in-store execution to sharpen its competitive edge. Management is on track with Compete, Accelerate and Reshape growth framework. Additionally, the company is focusing to improve U.S. Yogurt business, expand presence in the emerging nations, stabilize distribution channels and focus on enhancing price mix.

The company's next main strategy focuses on driving growth across four differential global platforms, which include Haagen-Dazs ice cream, snack bars, Old El Paso Mexican food, and General Mills' natural and organic food brands. Finally, the company is working toward reshaping its portfolio via prudent buyouts and divestitures. Apart from these, the company is focused on improving its e-commerce channel given its rapid acceleration.

▲ **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 tomatoes and EPIC meat bars. The natural products platform is likely to continue expanding in the forthcoming periods.

▲ **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 aided the gross margin expansion during the second quarter of fiscal 2020. Also, management expects COGS HMM savings to be 4% of cost of goods in full-year 2019. Together, these efforts are likely to provide some cushion to the company, from input cost inflation and costs related to additional growth investments in fiscal 2019.

▲ **Enhancing Shareholder Value:** The company remains committed toward enhancing its shareholders' return via share repurchases and dividends. In the first half of fiscal 2020, General Mills paid out dividends of roughly \$596 million. Moreover, the company undertakes share repurchase initiatives frequently.

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## Reasons To Sell:

- ▼ **Weakness in U.S. Snacks:** General Mills is witnessing weakness in the U.S. Snacks unit for quite some time now, which is weighing on its North America Retail unit's performance. In second-quarter fiscal 2020, revenues in the North America Retail segment remained flat at \$2,676 million. Sales in categories such as U.S. Snacks, U.S. Meals & Baking and U.S. Yogurt dropped 2%, 1% and 4%, respectively. Although the company is undertaking efforts to boost performance in these categories, the same is yet to yield results.
- ▼ **Sales Decline in Europe & Australia:** Sales at this segment have been declining for the past few quarters owing to a tough operating environment in France and weak trends in ice cream, among other factors. During the second quarter of fiscal 2020, revenues in the Europe & Australia segment declined 5% to \$432.9 million due to unfavorable currency rates. This followed declines of 9% and 10.2% in the preceding two quarters, respectively. However, management expects sales to grow in the second half on the back of improved merchandising and brand building.
- ▼ **Input Cost Inflation a Worry:** General Mills has been battling input cost inflation for a while now. Though margins grew year over year in the second quarter of fiscal 2020, they were affected by input cost inflation. Further, management anticipates input cost inflation to be 4% of cost of goods in full-year 2019. Apart from this, General Mills expects profits in the second half to be hurt by a mid-teens rise in brand-building investments.
- ▼ **Currency Headwinds:** General Mills' net sales were hurt by currency headwinds to the tune of about 1 percentage point in the second quarter of fiscal 2020. Incidentally, adverse currency movement was a major deterrent for the Asia & Latin America segment, wherein revenues declined 5%. Volatility in currency movements were a threat to the company.
- ▼ **Volatile Macroeconomic Environment:** The food industry is experiencing changes in consumer preference (for example, towards products with less artificial sweeteners, sodium and saturated fat), changes in consumer dynamics (such as increased need for portable and on-the-go products), demographic shifts, and also a spending shift towards lower-priced products. Further, General Mills is dependent on consumer discretionary spending environment which is affected by the general macroeconomic conditions, consumer confidence, employment levels and other macro factors.
- ▼ **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.

Input cost inflation has been a persistent hurdle for General Mills. Moreover, adverse currency movements in certain segments and weakness in U.S. Snacks unit are headwinds.

## Last Earnings Report

### General Mills Q2 Earnings & Sales Beat Estimates

Quarter Ending **11/2019**

General Mills released second-quarter fiscal 2020 results, wherein adjusted earnings per share of 95 cents increased 11% year over year on a constant-currency (cc) basis. The bottom line beat the Zacks Consensus Estimate of 88 cents. The upside was fueled by reduced adjusted effective tax rate and net interest expenses as well as higher adjusted operating profit and non-service benefit plan income. These were somewhat offset by greater average shares outstanding.

Report Date	Dec 18, 2019
Sales Surprise	0.17%
EPS Surprise	7.95%
Quarterly EPS	0.95
Annual EPS (TTM)	3.40

Net sales of \$4,420.8 million were flat year over year but beat the Zacks Consensus Estimate of \$4,413 million. Organic sales climbed 1%, courtesy of strength in the Pet segment. Further, organic volumes grew 1%, while net price realization and mix were flat.

Adjusted gross margin expanded 80 basis points (bps) to 35.3% on the back of HMM savings and manufacturing leverage. Results were somewhat hurt by inflated input costs.

Adjusted operating profit came in at \$813 million. The metric rose 7% at cc, courtesy of improved gross margin and reduced consumer promotional costs, partly negated by elevated media costs. Adjusted operating margin expanded 110 bps to 18.4%.

### Segmental Performance

**North America Retail:** Revenues in the segment came in at \$2,676 million, which was flat year over year. Organic net sales were also in line with the year-ago quarter's level. Weakness in U.S. Snacks, U.S. Meals & Baking and U.S. Yogurt categories were offset by strength in U.S. Cereal. Sales in Canada were also flat year over year.

**Convenience Stores & Foodservice:** Revenues were in line with the year-ago period at \$513.5 million, owing to growth in the Focus 6 platforms such as cereal, frozen baked goods and yogurt. This was countered by adverse index pricing of bakery flour and weakness in other non-Focus 6 products. Organically, sales were flat year over year.

**Europe & Australia:** The segment's revenues declined 5% to \$432.9 million due to unfavorable currency rates. Further, sales declined 1% year over year on an organic basis.

**Asia & Latin America:** Revenues declined 5% from the year-ago quarter to \$409.6 million. The downside was caused by adverse impacts of divestitures in fiscal 2019 and currency headwinds. Sales rose 1% on an organic basis, thanks to improvements in Latin America and China, countered by softness in India.

**Pet Segment:** Revenues came in at \$388.7 million, up 16% year over year on the back of volume growth as well as favorable net price realization and mix impacts.

### Other Financial Aspects

The company ended the quarter with cash and cash equivalents of \$560.2 million, long-term debt of \$10,953.1 million and total shareholder equity of \$7,712.3 million.

General Mills generated \$1,456.6 million as net cash from operating activities in the first half of fiscal 2020. During the same time frame, the company made capital investments worth \$158 million and paid dividends of \$596 million.

### Fiscal 2020 Guidance

Management expects organic sales to improve 1-2%. Moreover, net sales are expected to rise 1 percentage point, considering the impact from divestitures, currency translations and contributions from the 53rd week in fiscal 2020.

Adjusted operating profit (at cc) is expected to improve 2-4% from \$2.86 billion in fiscal 2019. Also, the company envisions adjusted earnings per share (EPS) growth (at cc) of 3-5%. Currency translation impacts are expected to remain irrelevant on adjusted operating profit and the bottom line.

The company now estimates free cash flow conversion of minimum 105% of adjusted after-tax earnings.

## Valuation

General Mills shares are up 28.7% over the trailing 12-month period. Over the past year, the Zacks sub-industry and Zacks Consumer Staples sector are up 16.1% and 20.1%, respectively.

The S&P 500 index is up 27.8% in the past year.

The stock is currently trading at 15.73X forward 12-month earnings, which compares to 18.57X for the Zacks sub-industry, 19.92X for the Zacks sector and 19.13X 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 17.68X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$57 price target reflects 16.61X 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	15.73	18.57	19.92	19.13
	5-Year High	23.31	22.9	22.38	19.34
	5-Year Low	11.53	14.82	16.66	15.17
	5-Year Median	17.68	19.19	19.76	17.44
P/S F12M	Current	1.91	1.77	10.26	3.56
	5-Year High	2.68	2.05	11.13	3.56
	5-Year Low	1.27	1.44	8.09	2.54
	5-Year Median	1.92	1.81	9.88	3
EV/EBITDA F12M	Current	12.23	14.08	34.39	12.66
	5-Year High	14.02	16.59	37.23	12.66
	5-Year Low	8.69	11.67	29.38	9.08
	5-Year Median	11.82	13.26	33.53	10.78

As of 01/22/2020

## Industry Analysis Zacks Industry Rank: Top 32% (81 out of 255)



## Top Peers

B&G Foods, Inc. (BGS)	Neutral
Conagra Brands Inc. (CAG)	Neutral
Campbell Soup Company (CPB)	Neutral
Flowers Foods, Inc. (FLO)	Neutral
Kellogg Company (K)	Neutral
Nomad Foods Limited (NOMD)	Neutral
TreeHouse Foods, Inc. (THS)	Neutral
United Natural Foods, Inc. (UNFI)	Neutral

Industry Comparison Industry: Food - Miscellaneous				Industry Peers		
	GIS Neutral	X Industry	S&P 500	CAG Neutral	K Neutral	THS Neutral
<b>VGM Score</b>	<b>B</b>	-	-	<b>C</b>	<b>C</b>	<b>B</b>
Market Cap	32.65 B	4.47 B	24.65 B	15.71 B	23.97 B	2.63 B
# of Analysts	7	3	13	7	6	5
Dividend Yield	3.63%	0.11%	1.77%	2.63%	3.25%	0.00%
<b>Value Score</b>	<b>B</b>	-	-	<b>B</b>	<b>B</b>	<b>A</b>
Cash/Price	0.02	0.04	0.04	0.01	0.02	0.02
EV/EBITDA	13.35	13.91	13.98	16.04	14.80	17.05
PEG Ratio	2.27	2.27	2.05	2.17	2.91	1.79
Price/Book (P/B)	4.07	2.97	3.38	2.04	7.29	1.46
Price/Cash Flow (P/CF)	12.66	13.40	13.60	12.79	11.93	6.86
P/E (F1)	15.92	19.03	19.07	15.19	17.45	17.72
Price/Sales (P/S)	1.95	1.43	2.69	1.49	1.75	0.52
Earnings Yield	6.28%	4.98%	5.24%	6.60%	5.74%	5.64%
Debt/Equity	1.37	0.62	0.72	1.21	2.45	1.29
Cash Flow (\$/share)	4.26	2.72	6.94	2.52	5.89	6.83
<b>Growth Score</b>	<b>C</b>	-	-	<b>D</b>	<b>C</b>	<b>C</b>
Hist. EPS Growth (3-5 yrs)	2.82%	5.08%	10.60%	-2.47%	3.43%	-10.27%
Proj. EPS Growth (F1/F0)	5.41%	7.85%	7.53%	5.76%	3.66%	11.16%
Curr. Cash Flow Growth	5.47%	3.82%	13.90%	10.04%	6.86%	-61.72%
Hist. Cash Flow Growth (3-5 yrs)	1.32%	7.12%	9.00%	-0.87%	1.17%	10.92%
Current Ratio	0.61	1.57	1.22	0.88	0.80	1.49
Debt/Capital	57.73%	38.38%	42.99%	54.72%	71.00%	56.27%
Net Margin	12.62%	2.79%	11.21%	7.62%	5.35%	-7.65%
Return on Equity	27.33%	11.60%	17.16%	12.50%	42.47%	5.80%
Sales/Assets	0.55	1.17	0.55	0.47	0.76	0.92
Proj. Sales Growth (F1/F0)	2.14%	2.53%	4.08%	12.57%	-2.02%	1.17%
<b>Momentum Score</b>	<b>F</b>	-	-	<b>C</b>	<b>D</b>	<b>C</b>
Daily Price Chg	-0.66%	0.00%	-0.04%	-1.43%	-0.48%	-0.17%
1 Week Price Chg	3.06%	1.49%	2.29%	4.71%	2.32%	2.93%
4 Week Price Chg	1.89%	0.17%	2.05%	-5.17%	1.93%	-2.30%
12 Week Price Chg	6.45%	5.73%	6.92%	16.19%	9.99%	-15.21%
52 Week Price Chg	22.65%	14.68%	21.50%	50.40%	18.82%	-18.88%
20 Day Average Volume	3,248,684	183,997	1,518,423	4,073,261	1,357,343	276,710
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	0.85%	-0.86%	-0.23%	0.51%	-0.76%	-6.79%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%



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## 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.

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### 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>B</b>
Growth Score	<b>C</b>
Momentum Score	<b>F</b>
VGM Score	<b>B</b>

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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