General Mills Reports Strong Fiscal 2021 First-Quarter Results and Announces Dividend Increase

- **Net sales increased 9 percent to $4.4 billion; organic net sales[1] were up 10 percent**
- **Operating profit increased 29 percent to $854 million; constant-currency adjusted operating profit was up 22 percent**
- **Diluted earnings per share (EPS) totaled $1.03, up 21 percent from the prior year; adjusted diluted EPS of $1.00 increased 27 percent in constant currency**
- **Company announces 4 percent quarterly dividend increase to $0.51 per share**

[1] Please see Note 6 to the Consolidated Financial Statements below for reconciliation of this and other non-GAAP measures used in this release.

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MINNEAPOLIS--(BUSINESS WIRE)--General Mills (NYSE: GIS) today reported results for the first quarter ended August 30, 2020.

"We continued to drive exceptional results this quarter, highlighted by broad-based market share gains amid elevated at-home food demand due to the COVID-19 pandemic," said General Mills Chairman and Chief Executive Officer Jeff Harmening. "The fundamentals of our business are strong. We're investing in our brands, executing with speed and agility, and maintaining our focus on the health and safety of our employees and our consumers. And, importantly, we're resuming dividend growth sooner than initially planned. I'm more confident than ever that General Mills is poised to emerge from the pandemic a stronger company and in a position to generate consistent, profitable growth and top-tier returns for our shareholders."

First Quarter Results Summary

- **Net sales** increased 9 percent to $4.4 billion and organic net sales were up 10 percent, reflecting increased pound volume due to elevated at-home food demand resulting from the COVID-19 pandemic, as well as positive net price realization and mix.
- **Gross margin** increased 170 basis points to 36.4 percent of net sales and adjusted gross margin increased 100 basis points to 36.2 percent of net sales, driven by the

benefit of fixed cost leverage in the supply chain, partially offset by COVID-related costs, including costs related to health and safety and costs to secure incremental capacity.

- **Operating profit** of $854 million was up 29 percent, primarily driven by higher net sales, higher gross margin as a percent of net sales, and lower mark-to-market and restructuring charges, partially offset by higher selling, general, and administrative (SG&A) expenses, including higher media investment**. Operating profit margin** of 19.6 percent increased 310 basis points. Constant-currency adjusted operating profit increased 22 percent, driven by higher net sales and higher adjusted gross margin as a percent of net sales, partially offset by higher SG&A expenses. Adjusted operating profit margin increased 210 basis points to 19.1 percent.
- **Net earnings attributable to General Mills** increased 23 percent to $639 million and **diluted EPS** increased 21 percent to $1.03, primarily reflecting higher operating profit and higher after-tax earnings from joint ventures, partially offset by a higher effective tax rate and higher average diluted shares outstanding. Adjusted diluted EPS totaled $1.00, up 27 percent in constant currency, primarily 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 average diluted shares outstanding.

Operating Segment Results

Note: Tables may not foot due to rounding.

Components of Fiscal 2021 Reported Net Sales Growth

First Quarter	Volume	Price/Mix	Foreign Exchange	Reported Net Sales
North America Retail	17 pts	(2) pts	--	14%
Pet	11 pts	(4) pts	--	6%
Convenience Stores & Foodservice	(9) pts	(3) pts	--	(12)%
Europe & Australia	(1) pt	6 pts	3 pts	8%
Asia & Latin America	20 pts	(4) pts	(10) pts	6%
Total	8 pts	2 pts	(1) pt	9%

Components of Fiscal 2021 Organic Net Sales Growth

First Quarter	Organic Volume	Organic Price/Mix	Organic Net Sales	Foreign Exchange	Acquisitions & Divestitures	Repor Net Sa
North America Retail	17 pts	(2) pts	14%	--	--	14
Pet	11 pts	(4) pts	6%	--	--	6%
Convenience Stores & Foodservice	(9) pts	(3) pts	(12)%	--	--	(12)
Europe & Australia	--	7 pts	7%	3 pts	(1) pt	8%
Asia & Latin America	20 pts	(4) pts	17%	(10) pts	--	6%
Total	8 pts	2 pts	10%	(1) pt	--	9%

Fiscal 2021 Segment Operating Profit Growth

First Quarter	% Change as Reported	% Change in Constant Currency
North America Retail	24%	24%
Pet	12%	12%
Convenience Stores & Foodservice	(24)%	(24)%
Europe & Australia	93%	89%
Asia & Latin America	99%	68%
Total	21%	20%

<u>North America Retail Segment</u>

First-quarter net sales for General Mills' North America Retail segment increased 14 percent to $2.71 billion, primarily reflecting increased demand for food at home resulting from the pandemic. Organic net sales also increased 14 percent, with a strong increase in organic pound volume partially offset by unfavorable organic net price realization and mix, due to stronger growth for heavier products including refrigerated baked goods, dessert mixes, and soup. Net sales increased 31 percent in U.S. Meals & Baking, 10 percent in U.S. Cereal, 5 percent growth in U.S. Yogurt, and 3 percent in Canada. U.S. Snacks net sales were down 2 percent. The segment continued to compete effectively, with market share stable or growing in 8 of its 10 largest U.S. categories. Similarly, General Mills brands grew household penetration faster than the leading branded competitor in 8 of the segment's 10 largest U.S. categories. Segment operating profit increased 24 percent to $695 million, primarily driven by higher volume, partially offset by higher SG&A expenses, including higher media investment.

<u>Pet Segment</u>

First-quarter net sales for the Pet segment increased 6 percent to $392 million, driven by positive contributions from volume growth, partially offset by unfavorable net price realization and mix. Net sales increased for both dog food and cat food, including double-digit growth for wet foods and treats. The company estimates that first-quarter net sales growth was negatively impacted by a reduction in at-home pet food inventory, which was elevated during the early stages of the COVID-19 pandemic. The BLUE brand continued to gain household penetration and market share in measured channels in the quarter. Segment operating profit increased 12 percent to $90 million, primarily driven by higher volume and benefits from Holistic Margin Management (HMM) cost savings, partially offset by unfavorable net price realization and mix and higher SG&A expenses, including higher media investment.

Convenience Stores & Foodservice Segment

First-quarter net sales for the Convenience Stores & Foodservice segment declined 12 percent to $392 million, reflecting reduced away-from-home food demand related to the pandemic. While improved versus the prior quarter, consumer traffic remained below year-ago levels in key channels including restaurants, lodging, and convenience stores. Retail sales for General Mills brands outpaced the competition in the quarter, leading to market share gains in measured channels. Segment operating profit of $70 million was down 24 percent, driven by lower net sales.

Europe & Australia Segment

First-quarter net sales for the Europe & Australia segment increased 8 percent to $491 million, primarily driven by increased demand for food at home resulting from the pandemic and 3 points of favorable foreign currency exchange. Organic net sales increased 7 percent. Double-digit net sales growth for *Old El Paso* Mexican food, *Häagen-Dazs* ice cream, and *Betty Crocker* dessert mixes was partially offset by a product recall-driven supply constraint on *Green Giant* vegetables. The segment grew market share in Nielsen-measured outlets, driven by strong performance in France. Segment operating profit totaled $53 million compared to $28 million a year ago and was up 89 percent in constant currency, primarily driven by higher net sales, including favorable net price realization and mix.

Asia & Latin America Segment

First-quarter net sales for the Asia & Latin America segment increased 6 percent to $383 million, driven by volume growth, partially offset by unfavorable foreign currency exchange and unfavorable net price realization and mix. Organic net sales increased 17 percent. Elevated at-home food demand stemming from the pandemic resulted in strong net sales growth for *Yoki* seasonings and *Kitano* meals and snacks in Brazil, *Wanchai Ferry* frozen dumplings in China, and *Betty Crocker* dessert mixes in the Middle East. Away-from-home food demand improved versus the previous quarter but remained a headwind for *Häagen-Dazs* ice cream across Asia. The segment grew market share in Nielsen-measured outlets in China and Brazil, its two largest markets. Segment operating profit totaled $20 million compared to $10 million a year ago and was up 68 percent in constant currency, primarily driven by higher net sales.

Joint Venture Summary

First-quarter net sales for Cereal Partners Worldwide (CPW) increased 9 percent in constant currency, reflecting increased at-home food demand due to the pandemic. Constant-currency net sales were down 1 percent at Häagen-Dazs Japan (HDJ), with lower volume partially offset by favorable net price realization and mix. Combined after-tax earnings from joint ventures totaled $41 million compared to $22 million a year ago, primarily driven by higher net sales and benefits from volume leverage at CPW.

Other Income Statement Items

Unallocated corporate items totaled $74 million net expense in the first quarter of fiscal 2021, compared to $99 million net expense a year ago. Excluding mark-to-market valuation effects and other items affecting comparability, unallocated corporate items totaled $96 million net expense this year compared to $88 million net expense last year.

Restructuring, impairment, and other exit costs were insignificant in the quarter compared to $8 million a year ago. An insignificant amount of restructuring charges were recorded in cost of sales this year compared to $6 million a year ago.

Net interest expense totaled $111 million in the first quarter compared to $119 million a year ago, primarily driven by lower average debt balances, partially offset by a change in the mix of debt. The effective tax rate in the quarter was 22.0 percent compared to 11.7 percent last year *(please see Note 5 below for more information on our effective tax rate)*. The adjusted effective tax rate was 21.9 percent compared to 20.9 percent a year ago.

Cash Flow Generation and Cash Returns

Cash provided by operating activities totaled $584 million in the first quarter of fiscal 2021, up 2 percent from the prior year, primarily driven by higher net earnings, partially offset by the timing of tax payments and receipts and higher after-tax earnings from joint ventures. Capital investments totaled $117 million compared to $70 million a year ago.

Dividends paid totaled $303 million and average diluted shares outstanding increased 1 percent to 620 million. The net debt-to-trailing 12-month operating cash flow ratio was 3.7x, and the net debt-to-trailing 12-month adjusted EBITDA ratio was 3.0x.

Dividend Increase

In recognition of the significant increase in net earnings attributable to General Mills and the reduction in net debt since the company's acquisition of Blue Buffalo Pet Products, Inc. in April 2018, the General Mills board of directors declared a quarterly dividend of $0.51 per share, payable November 2, 2020, to shareholders of record October 9, 2020. This represents a 4 percent increase from the previous quarterly rate of $0.49 per share. General Mills and its predecessor company have paid dividends without interruption for 121 years.

Fiscal 2021 Outlook and Priorities

General Mills continues to expect the largest factor impacting its fiscal 2021 performance will be the relative balance of at-home versus away-from-home consumer food demand, driven by the COVID-19 pandemic and resulting global macroeconomic headwinds. Through the first quarter of fiscal 2021, at-home food demand remained elevated relative to pre-pandemic levels, though it moderated from the fourth quarter of fiscal 2020, as expected, driven by the easing of pandemic-related restrictions and increased restaurant re-openings. The company expects second-quarter at-home food demand to remain elevated compared to pre-pandemic levels, including high single-digit aggregate retail sales growth in General Mills' North America Retail categories. The magnitude and duration of elevated at-home food demand remains highly uncertain, and as a result, the company is not currently providing a full-year outlook for fiscal 2021 growth in organic net sales, adjusted operating profit, and adjusted diluted EPS.

"In an uncertain environment, our job is to stay focused on what we can control," Harmening said. "We are positioned to compete and win in our categories this year, regardless of the level of demand. And we'll do that while driving efficiency, reducing our debt leverage, and investing for long-term success."

General Mills outlined three priorities for fiscal 2021 that will allow it to deliver competitive performance in the short term while continuing to advance its long-term goals:

1. **Compete effectively, everywhere we play**, leading to market share gains, increased brand penetration, competitive service levels, and strengthened customer partnerships. General Mills continues to expect net sales growth in fiscal 2021 will be positively impacted by its superior execution as well as elevated at-home food demand, relative to the pre-pandemic period. The company anticipates headwinds to fiscal 2021 net sales growth from comparisons against the 53rd week, the extra month of Pet results, and the pandemic-related increase in demand in the fourth quarter of fiscal 2020.
2. **Drive efficiency to fuel investment**. The company's objective is to deliver a full-year fiscal 2021 adjusted operating profit margin approximately in line with fiscal 2020 levels. After posting an increase in adjusted operating profit margin in the first quarter, the company expects second-quarter adjusted operating profit margin to decline, 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. The company expects full-year margin tailwinds from HMM savings and volume leverage to be offset by headwinds from input cost inflation, higher costs to service elevated demand, increased investment in brands and capabilities, and higher ongoing health and safety-related expenses.

3. **Reduce leverage to increase financial flexibility**. The company expects to close fiscal 2021 with a net debt-to-trailing 12-month adjusted EBITDA ratio below 3.2x.

General Mills will issue pre-recorded management remarks today, September 23, 2020, at approximately 6:30 a.m. Central time (7:30 a.m. Eastern time) and will hold a live, webcasted question and answer session beginning at 7:30 a.m. Central time (8:30 a.m. Eastern time). The pre-recorded remarks and the webcast will be made available at www.generalmills.com/investors.

This press release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that are based on our current expectations and assumptions. These forward-looking statements, including the statements under the caption "Fiscal 2021 Outlook and Priorities", and statements made by Mr. Harmening, are subject to certain risks and uncertainties that could cause actual results to differ materially from the potential results discussed in the forward-looking statements. In particular, our predictions about future net sales and earnings could be affected by a variety of factors, including: the impact of the COVID-19 pandemic on our business, suppliers, consumers, customers, and employees; disruptions or inefficiencies in the supply chain, including any impact of the COVID-19 pandemic; competitive dynamics in the consumer foods industry and the markets for our products, including new product introductions, advertising activities, pricing actions, and promotional activities of our competitors; economic conditions, including changes in inflation rates, interest rates, tax rates, or the availability of capital; product development and innovation; consumer acceptance of new products and product improvements; consumer reaction to pricing actions and changes in promotion levels; acquisitions or dispositions of businesses or assets; changes in capital structure; changes in the legal and regulatory environment, including tax legislation, labeling and advertising regulations, and litigation; impairments in the carrying value of goodwill, other intangible assets, or other long-lived assets, or changes in the useful lives of other intangible assets; changes in accounting standards and the impact of significant accounting estimates; product quality and safety issues, including recalls and product liability; changes in consumer demand for our products; effectiveness of advertising, marketing, and promotional programs; changes in consumer behavior, trends, and preferences, including weight loss trends; consumer perception of health-related issues, including obesity; consolidation in the retail environment; changes in purchasing and inventory levels of significant customers; fluctuations in the cost and availability of supply chain resources, including raw materials, packaging, and energy; effectiveness of restructuring and cost saving initiatives; volatility in the market value of derivatives used to manage price risk for certain commodities; benefit plan expenses due to changes in plan asset values and discount rates used to determine plan liabilities; failure or breach of our information technology systems; foreign economic conditions, including currency rate fluctuations; and political unrest in foreign markets and economic uncertainty due to terrorism or war. The company undertakes no obligation to publicly revise any forward-looking statement to reflect any future events or circumstances.